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CITY OF WEST BRANCH
OGEMAW COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED JUNE 30, 2008

AUDITORS' REPORT

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December 11, 2008

Independent Auditors' Report

Members of the City Council
City of West Branch
Ogemaw County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of West Branch, Ogemaw County, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements, as listed in the index. These financial statements are the responsibility of the City of West Branch's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of West Branch, Ogemaw County, Michigan, as of June 30, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2008, included in the Single Audit Report issued under a separate cover, on our consideration of the City of West Branch's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of West Branch's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stephenson, Gracik & Co., P.C.



City of West Branch

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MANAGEMENT DISCUSSION AND ANALYSIS

The discussion and analysis of the City of West Branch (City) financial performance provides an overview of the City's financial activities for the fiscal year of July 1, 2007 to June 30, 2008. The intent of this discussion and analysis is to look at the City's financial performance as a whole during this fiscal year. The discussion focuses on the City's primary government.

Financial Highlights

- The City's assets exceeded its liabilities by \$8,364,936 (*net assets*).
- The City's total net assets increased by \$430,836.
- The City's governmental funds reported combined ending fund balance of \$1,923,870 this year, a decrease of \$2,199 from last year. Of this amount, \$1,605,764 is available for spending (*unreserved fund balance*) on behalf of the citizens.

Overview of the Financial Statements

The financial statements are organized so the reader can understand the City as a financial whole or as an entire operating entity. The statements also provide a detailed look at specific financial conditions.

The City's basic financial statements are comprised of three components: The government-wide financial statements, fund financial statements, and notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *statement of net assets* and the *statement of activities* display information about the City as a whole. These statements include the financial activities of the primary government except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenue while business-type activities rely to a significant extent on fees and charges for services.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenue for each program or function of the City's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function.

Program revenue includes charges paid by the recipient for the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenue that is not classified as program revenue are presented as general revenue of the City with certain limited exceptions. The comparison of direct expense with program revenue identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenue of the City.

With this report, capital assets are listed under the government-wide financial statements for the City. These assets are comprised of infrastructure, buildings and improvements, furniture, fixtures, radios/electronic equipment, computer systems, vehicles and land owned by the City. These assets total over \$7,000,000.

Fund Financial Statements

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: *Governmental, Proprietary and Fiduciary*:



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"City with a Smile"

Governmental Funds

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

- General Fund – This fund is the general operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.
- Economic Advancement Fund – This fund is used to account for funds that are not specified for a particular purpose. The funds are used to supplement major projects such as, but not limited to, the Wastewater Treatment Plant, Arsenic Mitigation, Street Improvements or any other special project.
- Senior Citizens Housing Fund – This fund is used to account for the operation of a senior housing facility within the City.
- Housing Resource Fund - This fund accounts for federal, state and local financing used to rehabilitate low income housing for qualified City residents.

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows.

The City's enterprise funds may be used to account for any activity for which a fee is charged to external users (citizens) for goods and services. The following are the City's major enterprise funds:

- Sewer Fund – This fund is used to record the revenue and expense for the operation of the sewer system.
- Water Fund – This fund is used to record the revenue and expense for the operation of the water system.
- Internal Service Fund – This fund is used to record the financing of services provided by one department or agency to other departments or agencies of the City, and to other governments on a cost reimbursement basis.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The City's agency funds account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds.

Notes to Financial Statements

The notes to financial statements provide additional information that is essential to a full understanding of the data provided on the City's *government-wide* and *fund* financial statements. These notes provide an expansive and thorough view of various aspects of the audited financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents combining and individual fund statements and schedules.

Government-Wide Financial Analysis

Summary of Net Assets:

The following summarizes the net assets of the City of West Branch at June 30, 2008 and 2007:

Net Assets Summary

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Current Assets	\$ 2,583,945	\$ 1,480,082	\$ 4,064,027	\$ 3,971,289
Long-Term Mortgages Receivable	894,487	0	894,487	718,204
Capital Assets-Net	<u>4,742,316</u>	<u>901,818</u>	<u>5,644,134</u>	<u>5,055,024</u>
Total Assets	<u>8,220,748</u>	<u>2,381,900</u>	<u>10,602,648</u>	<u>9,744,517</u>
Current Liabilities	917,973	692,151	1,610,124	176,464
Long-Term Liabilities	<u>627,035</u>	<u>553</u>	<u>627,588</u>	<u>939,603</u>
Total Liabilities	<u>1,545,008</u>	<u>692,704</u>	<u>2,237,712</u>	<u>1,116,067</u>
Net Assets				
Investment in Capital Assets, Net of Related Debt	4,128,444	320,596	4,449,040	4,125,199
Restricted	318,106	0	318,106	542,238
Unrestricted	<u>2,229,190</u>	<u>1,368,600</u>	<u>3,597,790</u>	<u>3,961,013</u>
Total Net Assets	<u>\$ 6,675,740</u>	<u>\$ 1,689,196</u>	<u>\$ 8,364,936</u>	<u>\$ 8,628,450</u>

Summary of Changes in Net Assets:

Following is an analysis of the changes in net assets for the years ended June 30, 2008 and 2007:

Generally speaking, the City's net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction, or improvement of those assets. The City of West Branch, through its governing body, i.e., the City Council, has taken a sensible approach regarding capital asset acquisition and amortization of the incurred debt. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws/regulations of other governments.

The City Council has prudently set aside funds to offset potential personnel and/or administrative liabilities. It is the City's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Program Revenues:				
Charges for Services	\$ 729,046	\$ 663,994	\$ 1,393,040	\$ 1,183,067
Operating Grants and Contributions	559,775	0	559,775	419,609
Capital Grants and Contributions	<u>3,215</u>	<u>0</u>	<u>3,215</u>	<u>54,522</u>
Total Program Revenues	<u>1,292,036</u>	<u>663,994</u>	<u>1,956,030</u>	<u>1,657,198</u>
General Revenues:				
Property Tax	1,057,961	0	1,057,961	1,057,467
State Revenue Sharing	370,120	0	370,120	336,737
Rent Income	8,580	0	8,580	7,920
Investment Earnings	114,698	38,530	153,228	183,881
Sale of Capital Assets	393	0	393	0
Other	50,019	36,685	86,704	86,487
Transfers	<u>(130,296)</u>	<u>130,296</u>	<u>0</u>	<u>0</u>
Total General Revenues	<u>1,471,475</u>	<u>205,511</u>	<u>1,676,986</u>	<u>1,672,492</u>
Total Revenues	<u>2,763,511</u>	<u>869,505</u>	<u>3,633,016</u>	<u>3,329,690</u>

Summary of Changes in Net Assets: (Continued)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Program Expenses:				
General Government				
Legislative and Executive	\$ 70,854	\$ 0	\$ 70,854	\$ 80,792
Financial and Tax Administration	148,039	0	148,039	140,028
Other General Government	210,813	0	210,813	202,799
Public Safety	471,237	0	471,237	424,740
Public Works	712,652	0	712,652	593,094
Health and Welfare	26,471	0	26,471	23,432
Community and Economic Development	731,490	0	731,490	492,183
Recreational and Cultural	189,138	0	189,138	162,134
Other Expenses	800	0	800	1,300
Interest on Long-term Debt	17,810	0	17,810	48,819
Sewer Services	0	493,503	493,503	416,787
Sewer Collection Replacement	0	0	0	150,622
Sewer Plant Replacement	0	0	0	98,842
Sewer Collection	0	0	0	60,934
Water Services	0	129,373	129,373	108,042
Total Program Expenses	<u>2,579,304</u>	<u>622,876</u>	<u>3,202,180</u>	<u>3,004,548</u>
Change in Net Assets	184,207	246,629	430,836	325,142
Beginning Net Assets (Restated)	<u>6,491,533</u>	<u>1,442,567</u>	<u>7,934,100</u>	<u>8,303,308</u>
Ending Net Assets	<u>\$ 6,675,740</u>	<u>\$ 1,689,196</u>	<u>\$ 8,364,936</u>	<u>\$ 8,628,450</u>

Governmental Activities

The *Statement of Activities* illustrates, by department, the expense incurred and revenue received.

Total governmental activities reveal revenue of \$1,292,036 from *Charges for Services, Operating Grants and Contributions and Capital Grants and Contributions*. The *Charges for Services* are fees or services or facilities provided, primarily rental revenue from the Senior High-Rise, and loans to City residents for qualified housing rehabilitation. While revenue collected is substantial, operating expenses totaled \$2,579,304 for these same activities. The largest expenses were incurred by the Senior Citizens Housing Program (Community and Economic Development), Public Safety (Police and Fire), and Public Works.

Business-Type Activities

The City of West Branch's *Business-Type Activities* include the Sewer Fund and Water Fund. This year's audit combines expenditures for Sewer Collection Replacement, Sewer Plant Replacement and Sewer Collection into the Sewer Fund. These two funds are supported primarily from user fees for water and sewer services.

Financial Analysis of City Funds

As noted earlier in this report, the City uses fund accounting to ensure and demonstrate compliance with finance-related statutory and legal requirements. A thorough review and examination of fund types will reveal the strengths and weaknesses of its daily operations.

Governmental Funds

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds: General Fund – accounts for all financial resources, except those required to be accounted for in another fund; Economic Advancement Fund – accounts for funds that are not specified for a particular purpose. The funds are used to supplement major projects such as, but not limited to, the Wastewater Treatment Plant, Arsenic Mitigation, Street Improvements or any other special project; Senior Citizens Housing Fund – accounts for operation of a senior housing facility within the City; and Housing Resource Fund – accounts for federal, state and local financing used to rehabilitate low income housing for qualified City residents.

The other governmental funds of the City account for grants and other resources whose use is restricted for a particular purpose; the accumulation of resources for, and the payment of debt; and the acquisition or construction of major capital facilities.

This year's audit shows 19 governmental funds. These funds are maintained by the City Treasurer as separate units in the General Ledger.

Enterprise Funds

The City's enterprise funds provide the same type of information found in the government-wide financial statements. Commonly, departments such as the Sewer Fund, Water Fund and Internal Service Funds comprise these funds. The statements place such funds under the caption of *Proprietary Funds* under the appropriate statements, i.e., *Statement of Net Assets*, *Statement of Cash Flows*, etc.

Budgetary Highlights

The fiscal year ending June 30, 2008 was a financially challenging year for the City of West Branch. This fiscal year saw a significant increase in expenditures with only minor increases in revenue, providing an opportunity for City Council and other City Boards and Commissions, City administration, department heads and employees to work together to keep the City financially sound.

The City began the fiscal year with a \$375,604 general fund balance. At year end, this balance increased to \$381,871 a slight increase of \$6,267. The General Fund actual revenue of \$1,526,015 versus budgeted revenue of \$1,508,496 resulted in a favorable variance of \$17,519. Also, actual expenditures in the General Fund were \$1,519,748 versus budgeted expenditures of \$1,550,602, which resulted in a favorable variance of \$30,854. The favorable expenditure variance was primarily due to \$22,666 less expenditure for Public Safety than was budgeted.

Capital Asset and Debt Administration

Capital Assets

Capital Assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at *historical cost* or *estimated historical cost* if purchased or constructed. Donated capital assets are recorded at estimated fair market value (FMV) at the date of donation.

The City's infrastructure consists of roads, bridges, dams, and water/sewer lines. Improvements are capitalized, i.e., depreciated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

Capital Assets – Governmental Activities beginning balance was \$6,883,563 with an ending balance of \$7,131,029. The most significant additions were purchases of two dump trucks for the DPW and one vehicle for the Police Department (\$64,458). Also, construction of Sidney Street was completed during the fiscal year (\$159,699). Governmental Activities Total Capital Assets – Net of Depreciation was \$4,742,316.

Capital Assets – Business-Type Activities beginning balance was \$335,107 with an ending balance of \$975,607. Business-Type Activities Total Capital Assets – Net of Depreciation was \$901,818. The most significant components of the \$640,500 total additions included construction in progress costs in relation to engineering on a new wastewater treatment plant (\$535,000) which currently is being funded by an S2 grant from the MDEQ (\$242,555) and advances from Ogemaw Township and West Branch Township (\$292,445); and construction in progress related to a water arsenic mitigation project of \$90,513.

As of June 30, 2008, only one of the City's governmental fund balances were negative, compared to four the previous fiscal year. The Senior Citizens Housing Fund had a deficit of \$8,700. This deficit was decreased from the last fiscal year deficit of \$20,404. The other three deficits from the last fiscal year in the Housing Resource Fund (\$117,664), the DDA fund (\$98,213) and the Senior Center fund (\$4,686) were eliminated. The deficit in the Senior Citizens Housing Fund is expected to be eliminated in the fiscal year ending June 30, 2009.

Long-Term Debt

The Long-Term debt of the City of West Branch, as noted on the financial statements contained herein, is comprised of debt related to direct business transactions by the City Council or business trade activity on the part of a local unit of government.

At year's end, long-term debt (due in more than one year) amounted to \$627,588. Such debt includes *Notes Payable*, *Bonds Payable*, *Contracts Payable* and *Compensated Absences*.

Economic Factors

Although the West Branch region has realized significant growth in the previous ten years, there is very little vacant, developable property remaining in the City. This limitation on future development in the City would result in little growth in tax base and water and sewer revenue. This, along with increasing costs and declining interest revenue, will result in additional financial challenges for the City in the near future.

City financial planning will need to reflect the current downturn in the economy leading to more conservative budgeting.

However, with more aggressive marketing of the West Branch area, including capitalization on the growing health industry in the community as well as the potential for increased tourism, the City does have potential to realize future development and growth opportunities.

Requests For Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

City Treasurer
City of West Branch
121 N. Fourth Street
West Branch, MI 48661
989-345-0500

CITY OF WEST BRANCH
Ogemaw County, Michigan

STATEMENT OF NET ASSETS
June 30, 2008

	Primary Government			Component Unit
	Governmental	Business-Type		West Branch
	Activities	Activities	Total	DDA
<u>Assets</u>				
Cash and Cash Equivalents (Note 2)	\$ 1,929,873	\$ 1,298,448	\$ 3,228,321	\$ 27,324
Investments (Note 2)	178,000	0	178,000	71,402
Receivables: (Note 1)				
Accounts, Net	48,708	178,167	226,875	6,580
Loans Receivable	0	0	0	51,571
Notes Receivable	19,776	0	19,776	0
Due from Other Governmental Units	146,025	0	146,025	398
Due from Fiduciary Funds (Note 3)	167,927	0	167,927	0
Prepaid Expenses	21,080	3,467	24,547	0
Inventory:				
Other	72,556	0	72,556	0
Noncurrent Assets:				
Long-Term Mortgages Receivable (Note 1)	894,487	0	894,487	0
Capital Assets, Net (Note 4)	<u>4,742,316</u>	<u>901,818</u>	<u>5,644,134</u>	<u>110,013</u>
Total Assets	<u>8,220,748</u>	<u>2,381,900</u>	<u>10,602,648</u>	<u>267,288</u>
<u>Liabilities</u>				
Accounts Payable	178,981	100,471	279,452	10,668
Due to Other Governmental Units	3,982	338,667	342,649	0
Accrued Interest Payable	8,872	0	8,872	0
Deposits Payable	30,864	0	30,864	0
Escrow Deposits Payable	0	5,546	5,546	0
Accrued Liabilities	34,030	4,912	38,942	0
Deferred Revenue	661,244	242,555	903,799	0
Long-Term Liabilities: (Note 6)				
Due Within One Year	222,259	553	222,812	0
Due In More Than One Year	<u>404,776</u>	<u>0</u>	<u>404,776</u>	<u>0</u>
Total Liabilities	<u>1,545,008</u>	<u>692,704</u>	<u>2,237,712</u>	<u>10,668</u>
<u>Net Assets</u>				
Invested in Capital Assets, Net of Related Debt	4,128,444	320,596	4,449,040	110,013
Restricted For:				
Debt Service	115,089	0	115,089	0
Perpetual Care	203,017	0	203,017	79,084
Unrestricted	<u>2,229,190</u>	<u>1,368,600</u>	<u>3,597,790</u>	<u>67,523</u>
Total Net Assets	<u>\$ 6,675,740</u>	<u>\$ 1,689,196</u>	<u>\$ 8,364,936</u>	<u>\$ 256,620</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WEST BRANCH
Ogemaw County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

Function/Program	Net (Expense) Revenue and Changes in Net Assets							Component Unit West Branch DDA
	Expenses	Program Revenues			Primary Government			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total	
<u>Primary Government</u>								
Governmental Activities:								
General Government:								
Legislative and Executive	\$ 70,854	\$ 0	\$ 0	\$ 0	\$ (70,854)	\$ 0	\$ (70,854)	
Financial and Tax								
Administration	148,039	0	0	0	(148,039)	0	(148,039)	
Other General Government	210,813	293,873	1,167	0	84,227	0	84,227	
Public Safety:								
Police	438,887	20,290	9,652	3,215	(405,730)	0	(405,730)	
Fire	23,645	2,457	0	0	(21,188)	0	(21,188)	
Other Public Safety	8,705	0	0	0	(8,705)	0	(8,705)	
Public Works:								
Solid Waste	143,310	0	0	0	(143,310)	0	(143,310)	
Airport	26,431	0	0	0	(26,431)	0	(26,431)	
Other Public Works	542,911	182	0	0	(542,729)	0	(542,729)	
Health and Welfare:								
Other Health and Welfare	26,471	32,477	0	0	6,006	0	6,006	
Community and Economic								
Development	731,490	213,379	540,939	0	22,828	0	22,828	
Recreation and Cultural	189,138	166,388	8,017	0	(14,733)	0	(14,733)	
Other	800	0	0	0	(800)	0	(800)	
Interest and Fees on Long-Term								
Debt	<u>17,810</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(17,810)</u>	<u>0</u>	<u>(17,810)</u>	
Total Governmental Activities	<u>2,579,304</u>	<u>729,046</u>	<u>559,775</u>	<u>3,215</u>	<u>(1,287,268)</u>	<u>0</u>	<u>(1,287,268)</u>	

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WEST BRANCH
Ogemaw County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

					Net (Expense) Revenue and Changes in Net Assets			
		Program Revenues			Primary Government			Component Unit
		Charges for	Operating	Capital	Governmental	Business-		
Function/Program	Expenses	Services	Grants and Contributions	Grants and Contributions	Activities	Type Activities	Total	West Branch DDA
Business-Type Activities:								
Sewer Services	\$ 493,503	\$ 512,555	\$ 0	\$ 0	\$ 0	\$ 19,052	\$ 19,052	
Water Services	129,373	151,439	0	0	0	22,066	22,066	
Total Business-Type Activities	622,876	663,994	0	0	0	41,118	41,118	
Total Primary Government	\$ 3,202,180	\$ 1,393,040	\$ 559,775	\$ 3,215	(1,287,268)	41,118	(1,246,150)	
Component Unit								
West Branch DDA	\$ 87,428	\$ 51,411	\$ 27,525	\$ 0				\$ (8,492)
General Revenue:								
Property Taxes Levied For:								
General Operating					746,940	0	746,940	10,520
Refuse Collection					181,582	0	181,582	0
Debt Service					129,439	0	129,439	0
State Revenue Sharing					370,120	0	370,120	0
Interest and Investment Earnings					114,698	38,530	153,228	7,411
Rent Income					8,580	0	8,580	0
Sale of Capital Assets					393	0	393	0
Other					50,019	36,685	86,704	12,364
Transfers					(130,296)	130,296	0	0
Total General Revenue					1,471,475	205,511	1,676,986	30,295
Change in Net Assets					184,207	246,629	430,836	21,803
Net Assets - Beginning (Restated)					6,491,533	1,442,567	7,934,100	234,817
Net Assets - Ending					\$ 6,675,740	\$ 1,689,196	\$ 8,364,936	\$ 256,620

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WEST BRANCH
Ogemaw County, Michigan

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

	Special Revenue Funds					
	General Fund	Economic Advancement	Senior Citizens Housing	Housing Resource	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>						
Cash and Cash Equivalents (Note 2)	\$ 163,991	\$ 352,948	\$ 9,353	\$ 0	\$ 880,729	\$ 1,407,021
Investments (Note 2)	0	0	0	0	178,000	178,000
Receivables: (Note 1)						
Accounts, Net	24,875	0	17,648	219	5,966	48,708
Due from Other Governmental Units	57,641	0	0	58,903	29,481	146,025
Due from Other Funds (Note 3)	160,498	55,154	0	0	22,429	238,081
Prepaid Expenses	20,497	0	583	0	0	21,080
Inventory (Note 1)	0	0	0	72,556	0	72,556
Noncurrent Assets:						
Long-Term Mortgages Receivable (Note 1)	0	0	0	894,487	0	894,487
Long-Term Notes Receivable (Note 1)	19,776	0	0	0	0	19,776
Total Assets	<u>\$ 447,278</u>	<u>\$ 408,102</u>	<u>\$ 27,584</u>	<u>\$ 1,026,165</u>	<u>\$ 1,116,605</u>	<u>\$ 3,025,734</u>
<u>LIABILITIES AND FUND EQUITY</u>						
<u>Liabilities</u>						
Accounts Payable	\$ 9,798	\$ 0	\$ 7,063	\$ 14,867	\$ 3,871	\$ 35,599
Due to Other Funds (Note 3)	8,304	0	12,876	55,154	6,792	83,126
Due to Other Governmental Units	0	0	0	0	3,982	3,982
Deposits Payable	0	0	11,499	0	19,365	30,864
Accrued Liabilities	27,529	0	4,846	0	1,655	34,030
Deferred Revenue (Note 5)	19,776	0	0	894,487	0	914,263
Total Liabilities	<u>65,407</u>	<u>0</u>	<u>36,284</u>	<u>964,508</u>	<u>35,665</u>	<u>1,101,864</u>
<u>Fund Equity</u>						
Fund Balances (Deficits):						
Reserved For:						
Debt Service	0	0	0	0	115,089	115,089
Perpetual Care	0	0	0	0	203,017	203,017
Unreserved:						
Undesignated, Reported In:						
General Fund	381,871	0	0	0	0	381,871
Special Revenue Funds	0	408,102	(8,700)	61,657	762,834	1,223,893
Total Fund Equity	<u>381,871</u>	<u>408,102</u>	<u>(8,700)</u>	<u>61,657</u>	<u>1,080,940</u>	<u>1,923,870</u>
Total Liabilities and Fund Equity	<u>\$ 447,278</u>	<u>\$ 408,102</u>	<u>\$ 27,584</u>	<u>\$ 1,026,165</u>	<u>\$ 1,116,605</u>	<u>\$ 3,025,734</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WEST BRANCH
Ogemaw County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
June 30, 2008

Total Governmental Fund Balances		\$	1,923,870
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:			
Capital Asset Cost	\$	7,131,029	
Accumulated Depreciation		<u>(2,388,713)</u>	
			4,742,316
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds:			
Mortgages Receivable		233,243	
Special Assessments Receivable		<u>19,776</u>	
Net Difference			253,019
Accrued Interest on Long-Term Liabilities			(8,872)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:			
Bonds Payable (Net of Unamortized Discount)		(605,000)	
Notes Payable		(19,776)	
Compensated Absences Payable		<u>(2,259)</u>	
Total Long-Term Liabilities			(627,035)
Some amounts reported for governmental activities in the statement of net assets are different because the internal service funds assets and liabilities are included with governmental activities.			
			<u>392,442</u>
Total Net Assets - Governmental Activities	\$	<u><u>6,675,740</u></u>	

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WEST BRANCH
Ogemaw County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

	Special Revenue Funds				Other Governmental	Total Governmental
	General Fund	Economic Advancement	Senior Citizens Housing	Housing Resource	Funds	Funds
Revenue						
Property Taxes	\$ 928,522	\$ 0	\$ 0	\$ 0	\$ 129,439	\$ 1,057,961
Federal Grants and Revenue	0	0	200,371	434,418	0	634,789
State Grants and Revenue	195,396	0	0	43,170	185,543	424,109
Contributions from Local Units	0	0	0	0	11,232	11,232
Charges for Services	292,162	0	41,729	30,258	15,927	380,076
Fines and Forfeits	20,290	0	0	0	0	20,290
Interest and Rentals	37,422	4,378	159,716	38	94,938	296,492
Other Revenue	52,223	9,811	17,312	10	3,793	83,149
Total Revenue	<u>1,526,015</u>	<u>14,189</u>	<u>419,128</u>	<u>507,894</u>	<u>440,872</u>	<u>2,908,098</u>
Expenditures						
Current:						
General Government:						
Legislative	107,847	0	0	0	0	107,847
Financial and Tax Administration	198,805	0	0	0	0	198,805
Other General Government	175,479	0	0	0	43,751	219,230
Public Safety	456,016	0	0	0	4,561	460,577
Public Works	363,768	0	0	0	121,364	485,132
Health and Welfare	0	0	0	0	26,471	26,471
Community and Economic Development	31,098	16,004	282,634	328,573	8,796	667,105
Recreation and Cultural	180,429	0	0	0	0	180,429
Capital Outlay	0	0	0	0	159,699	159,699
Debt Service:						
Principal	5,000	0	0	0	274,750	279,750
Interest and Fiscal Charges	1,306	0	0	0	42,635	43,941
Total Expenditures	<u>1,519,748</u>	<u>16,004</u>	<u>282,634</u>	<u>328,573</u>	<u>682,027</u>	<u>2,828,986</u>
Excess of Revenue Over (Under) Expenditures	<u>6,267</u>	<u>(1,815)</u>	<u>136,494</u>	<u>179,321</u>	<u>(241,155)</u>	<u>79,112</u>
Other Financing Sources (Uses)						
Sale of Capital Assets	0	0	0	0	44,018	44,018
Operating Transfers In	0	409,658	0	0	244,520	654,178
Operating Transfers Out	0	(90,000)	(124,790)	0	(564,717)	(779,507)
Total Other Financing Sources (Uses)	<u>0</u>	<u>319,658</u>	<u>(124,790)</u>	<u>0</u>	<u>(276,179)</u>	<u>(81,311)</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>6,267</u>	<u>317,843</u>	<u>11,704</u>	<u>179,321</u>	<u>(517,334)</u>	<u>(2,199)</u>
Fund Balances (Deficits) - Beginning of Year (Restated)	<u>375,604</u>	<u>90,259</u>	<u>(20,404)</u>	<u>(117,664)</u>	<u>1,598,274</u>	<u>1,926,069</u>
Fund Balances (Deficits) - End of Year	<u>\$ 381,871</u>	<u>\$ 408,102</u>	<u>\$ (8,700)</u>	<u>\$ 61,657</u>	<u>\$ 1,080,940</u>	<u>\$ 1,923,870</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WEST BRANCH
Ogemaw County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

Total Net Change in Fund Balances - Governmental Funds	\$ (2,199)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital Outlay	324,157	
Current Year Depreciation Expense	(210,850)	
Gain on Sale of Fixed Assets	<u>(45,000)</u>	
Net difference		68,307

Principal repayments on long-term debt are reported as expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The amount of repayments reported as expenditures in the governmental funds consist of:

Bonds Payable	220,000	
Notes Payable	5,000	
Contracts Payable	<u>54,750</u>	
Net difference		279,750

Receivables not currently available are reported as revenue when collected or when currently available in the fund financial statements but are recognized as revenue when earned in the government-wide financial statements:

Due from Local Units	(32,750)	
Net Change in Long-Term Mortgages Receivable	<u>(137,020)</u>	
		(169,770)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Net Change in Accrued Interest	24,025	
Net Change in Accrued Compensated Absences	<u>13,371</u>	
		37,396

Some amounts reported for governmental activities in the statement of net assets are different because the internal service funds revenue and expenses are included with governmental activities.

(29,277)

Change in Net Assets of Governmental Activities	\$ <u><u>184,207</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

CITY OF WEST BRANCH
Ogemaw County, Michigan

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2008

	<u>Enterprise Funds</u>			<u>Governmental</u>
	<u>Major Funds</u>			<u>Activity</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Internal Service</u>
				<u>Funds</u>
<u>Assets</u>				
Current Assets:				
Cash and Cash Equivalents (Note 2)	\$ 368,068	\$ 930,380	\$ 1,298,448	\$ 522,852
Receivables:				
Accounts, Net	134,641	43,526	178,167	0
Due from Other Funds (Note 3)	0	0	0	12,972
Prepaid Expenses (Note 1)	<u>3,467</u>	<u>0</u>	<u>3,467</u>	<u>0</u>
Total Current Assets	<u>506,176</u>	<u>973,906</u>	<u>1,480,082</u>	<u>535,824</u>
Noncurrent Assets:				
Capital Assets, Net (Note 4)	<u>727,305</u>	<u>174,513</u>	<u>901,818</u>	<u>0</u>
Total Assets	<u>1,233,481</u>	<u>1,148,419</u>	<u>2,381,900</u>	<u>535,824</u>
<u>Liabilities</u>				
Current Liabilities:				
Accounts Payable	28,744	71,865	100,609	143,382
Due to Other Governmental Units	338,667	0	338,667	0
Escrow Deposits Payable	4,163	1,383	5,546	0
Accrued Liabilities	4,774	0	4,774	0
Deferred Revenue	242,555	0	242,555	0
Current Portion of Long-Term Liabilities (Note 6)	<u>553</u>	<u>0</u>	<u>553</u>	<u>0</u>
Total Liabilities	<u>619,456</u>	<u>73,248</u>	<u>692,704</u>	<u>143,382</u>
<u>Net Assets</u>				
Invested In Capital Assets, Net of Related Debt	146,083	174,513	320,596	0
Unrestricted	<u>467,942</u>	<u>900,658</u>	<u>1,368,600</u>	<u>392,442</u>
Total Net Assets	<u>\$ 614,025</u>	<u>\$ 1,075,171</u>	<u>\$ 1,689,196</u>	<u>\$ 392,442</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WEST BRANCH
Ogemaw County, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2008

	Enterprise Funds			Governmental
	Major Funds			Activity
	Sewer	Water	Total	Internal Service Funds
<u>Operating Revenue</u>				
Charges For Services	\$ 512,555	\$ 144,839	\$ 657,394	\$ 0
Equipment Rental	0	6,600	6,600	232,191
Other Revenue	25,428	11,257	36,685	1,141
Total Operating Revenue	<u>537,983</u>	<u>162,696</u>	<u>700,679</u>	<u>233,332</u>
<u>Operating Expenses</u>				
Salaries and Wages	129,811	34,343	164,154	11,086
Payroll Taxes and Employee Benefits	65,601	3,465	69,066	906
Administrative Costs	65,800	12,000	77,800	11,000
Building Maintenance	19,761	0	19,761	35,292
Contractual Services	60,556	27,602	88,158	55
Capital Outlay	0	0	0	164,458
Depreciation	3,683	6,000	9,683	0
Equipment Rental	17,909	21,463	39,372	0
Gasoline and Oil	0	0	0	38,637
Insurance and Bonds	10,154	0	10,154	16,834
Operating Supplies	27,390	9,994	37,384	0
Professional Fees and Services	505	0	505	1,287
Telephone	1,111	0	1,111	0
Utilities	87,966	10,035	98,001	0
Other	997	914	1,911	0
Total Operating Expenses	<u>491,244</u>	<u>125,816</u>	<u>617,060</u>	<u>279,555</u>
Operating Income (Loss)	<u>46,739</u>	<u>36,880</u>	<u>83,619</u>	<u>(46,223)</u>
<u>Nonoperating Revenue (Expenses)</u>				
Interest and Investment Earnings	11,035	27,495	38,530	15,571
Interest and Fees Expense	0	(849)	(849)	0
Gain or Loss on Sale of Capital Assets	0	0	0	1,375
Total Nonoperating Revenue (Expenses)	<u>11,035</u>	<u>26,646</u>	<u>37,681</u>	<u>16,946</u>
Income (Loss) Before Operating Transfers	<u>57,774</u>	<u>63,526</u>	<u>121,300</u>	<u>(29,277)</u>
Operating Transfers In	90,000	125,329	215,329	0
Operating Transfers Out	<u>(90,000)</u>	<u>0</u>	<u>(90,000)</u>	<u>0</u>
Net Operating Transfers	<u>0</u>	<u>125,329</u>	<u>125,329</u>	<u>0</u>
Change in Net Assets	57,774	188,855	246,629	(29,277)
Net Assets - Beginning of Year	<u>556,251</u>	<u>886,316</u>	<u>1,442,567</u>	<u>421,719</u>
Net Assets - End of Year	<u>\$ 614,025</u>	<u>\$ 1,075,171</u>	<u>\$ 1,689,196</u>	<u>\$ 392,442</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WEST BRANCH
Ogemaw County, Michigan

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2008

	Enterprise Funds			Governmental Activity
	Major Funds			Internal Service Funds
	Sewer	Water	Total	Funds
<u>Cash Flows From Operating Activities</u>				
Receipts from Customers	\$ 504,107	\$ 141,045	\$ 645,152	\$ 232,191
Other Operating Revenue	25,428	11,257	36,685	1,141
Payments to Suppliers for Goods and Services	(286,036)	(15,575)	(301,611)	(127,579)
Payments to Employees for Services	(191,282)	(37,808)	(229,090)	(11,992)
Net Cash Provided by Operating Activities	<u>52,217</u>	<u>98,919</u>	<u>151,136</u>	<u>93,761</u>
<u>Cash Flows From Non-Capital Financing Activities</u>				
Cash Received from (Paid to) Other funds	<u>(59,798)</u>	<u>287,590</u>	<u>227,792</u>	<u>116,240</u>
<u>Cash Flows From Capital and Related Financing Activities</u>				
Proceeds from Short-Term Debt Issuance	338,667	0	338,667	0
Proceeds from Sale of Capital Asset	0	0	0	1,375
Acquisition and Construction of Capital Assets	(549,987)	(90,513)	(640,500)	0
State Grants Received	242,555	0	242,555	0
Principal Paid on Long-Term Debt	0	(18,250)	(18,250)	0
Interest and Fees Paid on Long-Term Debt	0	(849)	(849)	0
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>31,235</u>	<u>(109,612)</u>	<u>(78,377)</u>	<u>1,375</u>
<u>Cash Flows From Investing Activities</u>				
Interest on Investments	<u>11,035</u>	<u>27,495</u>	<u>38,530</u>	<u>15,571</u>
Net Increase in Cash and Cash Equivalents	34,689	304,392	339,081	226,947
Cash and Cash Equivalents at Beginning of Year (Note 1)	<u>333,379</u>	<u>625,988</u>	<u>959,367</u>	<u>295,905</u>
Cash and Cash Equivalents at End of Year (Note 1)	<u>\$ 368,068</u>	<u>\$ 930,380</u>	<u>\$ 1,298,448</u>	<u>\$ 522,852</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</u>				
Operating Income (loss)	\$ 46,739	\$ 36,880	\$ 83,619	\$ (46,223)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation Expense	3,683	6,000	9,683	0
Change in Assets and Liabilities:				
Accounts Receivable	(8,448)	(10,394)	(18,842)	0
Prepaid Expenses	(3,467)	0	(3,467)	0
Accounts Payable and Accrued Liabilities	14,354	66,433	80,787	139,984
Accrued Compensated Absences	(644)	0	(644)	0
Net Cash Provided by Operating Activities	<u>\$ 52,217</u>	<u>\$ 98,919</u>	<u>\$ 151,136</u>	<u>\$ 93,761</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WEST BRANCH
Ogemaw County, Michigan

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
June 30, 2008

	<u>Tax Collection</u>	<u>Irons Park Entertainment</u>	<u>Fort Austin</u>	<u>Senior Activity Account</u>	<u>Skate Park</u>	<u>Animals for the Arts</u>	<u>Centennial Fund Account</u>	<u>Recycle</u>	<u>Total</u>
<u>ASSETS</u>									
Cash and Cash Equivalents (Note 2)	\$ 167,742	\$ 6,338	\$ 13,178	\$ 3,230	\$ 0	\$ 1,800	\$ 0	\$ 5,346	\$ 197,634
Receivables:									
Accounts, Net	<u>931</u>	<u>1,958</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,889</u>
Total Assets	<u>\$ 168,673</u>	<u>\$ 8,296</u>	<u>\$ 13,178</u>	<u>\$ 3,230</u>	<u>\$ 0</u>	<u>\$ 1,800</u>	<u>\$ 0</u>	<u>\$ 5,346</u>	<u>\$ 200,523</u>
<u>LIABILITIES</u>									
Accounts Payable	\$ 0	\$ 196	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 608	\$ 804
Due to Other Governmental Units	746	0	0	0	0	0	0	0	746
Due to Other Agencies and Individuals	0	8,100	13,178	3,230	0	1,800	0	4,738	31,046
Due to Other Funds (Note 3)	<u>167,927</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>167,927</u>
Total Liabilities	<u>\$ 168,673</u>	<u>\$ 8,296</u>	<u>\$ 13,178</u>	<u>\$ 3,230</u>	<u>\$ 0</u>	<u>\$ 1,800</u>	<u>\$ 0</u>	<u>\$ 5,346</u>	<u>\$ 200,523</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of West Branch (City) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. Private-sector standards of accounting issued after November 30, 1989, are generally followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies:

A. Description of City Operations and Fund Types

The City of West Branch operates under an elected City Council with a City Manager overseeing daily operations. The City provides services to its residents in many areas including fire protection, law enforcement, community enrichment and human services.

B. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements of the City are not misleading. The primary government of the City consists of all funds, departments, boards, and agencies that are not legally separate from the City.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs of services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes.

1. Discretely Presented Component Unit

The component unit column on the combined financial statements include the financial data of the City's component unit. It is reported in a separate column to emphasize that it is legally separate from the City.

The West Branch DDA is reported in a separate column to emphasize that it is legally separate from the City. The governing body of this unit is appointed by the City Council. The DDA was established to eliminate the causes of property value deterioration and promote economic growth in the business district of the City of West Branch. Separate financial statements for the DDA are not prepared.

While the following organizations had positive responses to some of the above criteria, each is excluded from the accompanying financial statements for the reasons specified:

- West Branch Regional Medical Center - The City Council appoints the governing board, but the hospital is otherwise independently operated and financed.
- West Branch Community Airport - The airport is a joint venture between Ogemaw County and the City. A separate board is appointed and the airport is operated independent of the County and City.
- Ogemaw Fire Board - The fire board is a joint venture with five other local units. The City appoints one of the six board members, but the fire board is otherwise operated independent of the City.
- West Branch Public Library - The City prepares all the bookkeeping and provides all the employees of the Library. However, the City has only one voting representative on the five member District Library Board.
- Ogemaw County Emergency Medical Services Authority - The EMS Authority Board is a joint venture

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Reporting Entity (Continued)

with sixteen other governmental units. The City appoints one of the five board members, but the EMS Authority Board is otherwise operated independent of the City.

C. Joint Ventures

The City has entered into two joint ventures with various municipalities described as follows:

Ogemaw Fire Department Joint Venture:

The City of West Branch is one member of the Ogemaw Fire Department which serves six governmental units. The City contributes a pro-rata share of the budget of the Ogemaw Fire Department calculated based on the state equalized value (SEV) of the participating municipalities, as provided by the by-laws of the Ogemaw Fire Department. The City's contribution to the Ogemaw Fire Department for the year ending June 30, 2008 was \$21,210.

Upon dissolution of the Ogemaw Fire Department, all funds, special funds, equipment, land, buildings and assets belonging to the Department shall remain with any two or more of the original municipalities that agreed to continue under the terms of the contract on the effective date of the dissolution of the Department. The Ogemaw Fire Department had assets of \$1,037,496 at December 31, 2007.

Financial statements may be obtained from the Ogemaw Fire Department, 119 N. Third Street, West Branch, MI 48661.

Ogemaw County Emergency Medical Services Joint Venture:

The Ogemaw County Emergency Medical Services Authority, (the Authority), is a joint area Board formed on July 1, 2006, serving seventeen governmental units - Ogemaw County, City of West Branch, City of Rose City, Mills Township, Richland Township, Rose Township, West Branch Township, Churchill Township, Cummings Township, Horton Township, Edwards Township, Foster Township, Klacking Township, Goodar Township, Hill Township, Logan Township and Ogemaw Township.

The Board consists of five members including an executive from Ogemaw County, City of West Branch, City of Rose City and Mills Township, and one member selected in rotation from the thirteen Townships not otherwise represented on the Board. The members of the Board are appointed by their respective municipality for terms of six years.

If one of the incorporating municipalities withdraws, the fair market value of the assets will be determined. The withdrawing municipality will receive their respective share of the asset proceeds based on the average special assessments, general fund contribution and Authority millage revenue raised from the geographic area of the withdrawing incorporating municipality over the past ten fiscal years. If two or more incorporating municipalities withdraw, the Authority is dissolved, and all the property owned by the Authority shall be disposed of in any manner in which all of the incorporating municipalities can agree. The Ogemaw County Emergency Medical Services Authority had assets of \$1,500,406 at September 30, 2007.

Financial statements may be obtained from the Ogemaw County Emergency Medical Services Authority, 1383 Airport Road, West Branch, MI 48661.

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation

The City's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government and its component units, except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for support.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type, and are excluded from the government-wide financial statements.

E. Fund Accounting

The City uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain City functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Continued)

General Fund - This fund accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, charges for services and state revenue.

Economic Advancement Fund - This fund is used to account for funds that are not specified for a particular purpose. The funds are used to supplement major projects such as, but not limited to, the Wastewater Treatment Plant, Aresenic Mitigation, Street Improvements or any other special project.

Senior Citizens Housing Fund - This fund is used to account for the operation of a senior housing facility within the City.

Housing Resource Fund - This fund accounts for federal, state and local financing used to rehabilitate low income housing for qualified City residents.

The other governmental funds of the City account for property taxes, federal and state grants and other resources whose use is restricted for a particular purpose; the accumulation of resources for, and the payment of debt; and the acquisition or construction of major capital facilities. .

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The City's enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Sewer Fund - This fund is used to record the revenues and expenses for the operation of the sewer system.

Water Fund - This fund is used to record the revenues and expenses for the operation of the water system.

Internal Service Funds - These funds are used to record the financing of services provided by the local unit to other departments and funds, and to other governmental units on a cost reimbursement basis.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The City's agency funds account for assets held by the City for political subdivisions in which the City acts as fiscal agent for others. The City uses this fund to account for property tax collections.

F. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus.

All assets and all liabilities associated with the operation of the City are included on the statement of net assets.

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Measurement Focus (Continued)

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the enterprise funds are accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in revenue, expenses, and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows reflects how the City finances and meets the cash flow needs of its enterprise activities.

G. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide, proprietary and fiduciary funds financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, sales taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from sales taxes is recognized in the period in which the sales are made. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: sales taxes, charges for services, fines and forfeitures, state-levied locally shared taxes (including sales tax), grants, interest and rent.

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Basis of Accounting (Continued)

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

On governmental fund financial statements, receivables that were not collected within the available period are recorded as deferred revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

H. Cash and Cash Equivalents

For presentation on the financial statements, investments in the cash management pools and investments with an original maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported at fair value, except for repurchase agreements and certificates of deposit which are reported at cost which approximates fair value. Fair value is based on quoted market prices. Mutual funds are reported at current share price.

I. Receivables

Receivables generally consist of accounts (fees), sales taxes, shared revenues, property taxes, mortgages receivable, special assessments, intergovernmental grants, and interest. All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectibility.

The allowance for doubtful accounts at June 30, 2008 was \$0 for the primary government and the component unit.

J. Interfund Receivables and Payables

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "due from/to other funds". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets. Balances due from/to fiduciary funds and component units are reported on the government-wide statement of net assets.

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and fund financial statements.

L. Inventory

Inventory represents the cost of properties purchased to be refurbished for future sales through the Housing Resource Fund.

M. Long-Term Mortgages Receivable

Long-term mortgages receivable represent amounts due from individuals for housing loans and grants received, and are reported at their gross value.

N. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activities column of the government-wide statement of net assets and in the respective funds.

Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The City's infrastructure consists of roads, bridges, dams and water and sewer lines. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

Capital assets are depreciated using the straight-line method over the following useful lives:

<u>Descriptions</u>	<u>Estimated Lives</u>
Buildings	40 - 60 years
Building Improvements	15 - 30 years
Water and Sewer Lines	50 years
Dams	50 years
Radio Towers	10 years
Vehicles	3 - 5 years
Office Equipment	5 - 7 years
Computer Equipment	3 - 7 years

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the enterprise fund are reported on the enterprise fund statement. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

P. Compensated Absences

The City reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation and sick leave benefits are accrued as a liability using the vesting method. An accrual for earned vacation and sick leave is made based on accumulated vacation and sick leave and the employee wage rates at year end taking into consideration limits specified in the City's termination policy.

The entire compensated absences liability is reported on the government-wide financial statements. On the governmental fund financial statements, the current portion of unpaid compensated absences is recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts, if any, are recorded in the account "Accrued Compensated Absences Payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported in the governmental fund financial statements. For enterprise funds, the entire amount of compensated absences is reported as a fund liability.

Q. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

R. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the City, these revenues are user fees for sewer and water usage. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

S. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended June 30, 2008.

U. Budgets and Budgetary Accounting

The City of West Branch normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. This operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at the governmental center to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of an ordinance.
4. All budget appropriations lapse at year-end. Budgetary amounts reported herein are as originally adopted, and as amended by the City Council throughout the operating year.

The City adopts budgets for the General Fund and Special Revenue Funds.

The budgets of the City are prepared on the same basis of accounting as the financial statement presentation. The budgets were adopted at the activity level.

Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles, and consist only of those amounts contained in the formal budget approved and amended by the City Council.

V. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

W. Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Unit</u>
Cash and Cash Equivalents	\$ 1,929,873	\$ 1,298,448	\$ 197,634	\$ 3,425,955	\$ 27,324
Investments	<u>178,000</u>	<u>0</u>	<u>0</u>	<u>178,000</u>	<u>71,402</u>
Total	<u>\$ 2,107,873</u>	<u>\$ 1,298,448</u>	<u>\$ 197,634</u>	<u>\$ 3,603,955</u>	<u>\$ 98,726</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Component Unit</u>
Bank Deposits (Checking and Savings Accounts and Certificates of Deposit)	\$ 398,744	\$ 98,726
Investments in Financial Institution Pooled Funds	3,204,886	0
Petty Cash and Cash on Hand	<u>325</u>	<u>0</u>
Total	<u>\$ 3,603,955</u>	<u>\$ 98,726</u>

As of June 30, 2008, the City had the following investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Primary Government:		
Money Markets	\$ 1,634,232	Daily
Repurchase Agreements - Public Funds	<u>1,570,654</u>	Daily
	<u>\$ 3,204,886</u>	

Interest Rate Risk

In accordance with its investment policy, the City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the City's known cash requirements.

Credit Risk

State law authorizes investments in accordance with Act 196, PA 1997 and in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a local government unit in Michigan. The City's repurchase sweep accounts and investment pool's are unrated.

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk - Deposits - Primary Government

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2008, \$1,716,568 of the City's bank balance of \$2,008,456 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Deposits - Component Unit

In the case of deposits, this is the risk that in the event of a bank failure, the component unit's deposits may not be returned to it. As of June 30, 2008, \$63,000 of the West Branch DDA Fund 's bank balance of \$98,726 was exposed to custodial credit risk.

Concentration of Credit Risk

The City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. National City Bank investment sweep account consisting of repurchase agreements of public funds represents 49% of the City's total investments.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The City will minimize custodial credit risk, by; limiting investments to the types of securities approved in the City's investment policy which is in accordance with State law, and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the City will do business.

As of June 30, 2008, none of the City's investments , except for the repurchase agreements noted above, were exposed to custodial credit risk as they were uninsured and unregistered with securities held by the counterparty's trust department or agent in the City's name.

Foreign Currency Risk

The City's investment policy does not address foreign currency risk.

Investments

The City Council has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the City to deposit and invest in the following:

- λ Accounts of federally insured banks, credit unions and savings and loan associations
- λ Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- λ United States government or federal agency obligation repurchase agreements
- λ Banker's acceptances of United States banks

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

- Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The City's deposits and investments are in accordance with statutory authority.

The classification of cash and cash equivalents and investments on the balance sheet/statement of net assets is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting". A reconciliation between the classification of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	<u>Primary Government</u>		<u>Component Units</u>	
	<u>Cash and</u>		<u>Cash and</u>	
	<u>Cash</u>		<u>Cash</u>	
	<u>Equivalents</u>	<u>Investments</u>	<u>Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$ 3,425,955	\$ 178,000	\$ 27,324	\$ 71,402
Petty Cash	(325)	0	0	0
Certificate of deposit maturing in greater than 90 days	178,000	(178,000)	71,000	(71,000)
Money markets	(1,634,232)	1,634,232	402	(402)
Repurchase agreement securities	<u>(1,570,654)</u>	<u>1,570,654</u>	<u>0</u>	<u>0</u>
GASB Statement No. 3	<u>\$ 398,744</u>	<u>\$ 3,204,886</u>	<u>\$ 98,726</u>	<u>\$ 0</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of June 30, 2008 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds:		
General Fund	\$ 160,498	\$ 8,304
Economic Advancement Fund	55,154	0
Senior Citizens Housing Fund	0	12,876
Housing Resource Fund	0	55,154
Total Major Governmental Funds	<u>215,652</u>	<u>76,334</u>
Non-major Governmental Funds	22,429	6,792
Internal Service Funds	12,972	0
Fiduciary Funds	<u>0</u>	<u>167,927</u>
	<u>\$ 251,053</u>	<u>\$ 251,053</u>

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the primary government for the fiscal year ended June 30, 2008, was as follows:

	<u>Balance 07/01/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 06/30/08</u>
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 863,065	\$ 0	\$ (45,000)	\$ 818,065
Construction in Progress	<u>3,000</u>	<u>0</u>	<u>(3,000)</u>	<u>0</u>
Subtotal	<u>866,065</u>	<u>0</u>	<u>(48,000)</u>	<u>818,065</u>
Capital Assets Being Depreciated:				
Land Improvements	469,776	0	0	469,776
Buildings and Improvements	3,109,457	0	0	3,109,457
Equipment	513,917	0	0	513,917
Vehicles	231,946	164,458	(31,691)	364,713
Infrastructure	<u>1,692,402</u>	<u>162,699</u>	<u>0</u>	<u>1,855,101</u>
Subtotal	<u>6,017,498</u>	<u>327,157</u>	<u>(31,691)</u>	<u>6,312,964</u>
Less Accumulated Depreciation for:				
Land Improvements	184,188	17,239	0	201,427
Buildings and Improvements	1,187,779	73,986	0	1,261,765
Equipment	213,447	46,207	0	259,654
Vehicles	183,457	20,346	(31,691)	172,112
Infrastructure	<u>440,683</u>	<u>53,072</u>	<u>0</u>	<u>493,755</u>
Subtotal	<u>2,209,554</u>	<u>210,850</u>	<u>(31,691)</u>	<u>2,388,713</u>
Capital Assets Being Depreciated	<u>3,807,944</u>	<u>116,307</u>	<u>0</u>	<u>3,924,251</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 4,674,009</u>	<u>\$ 116,307</u>	<u>\$ (48,000)</u>	<u>\$ 4,742,316</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	Balance 07/01/07	Additions	Deletions	Balance 06/30/08
<u>Business-Type Activities</u>				
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ 0	\$ 625,513	\$ 0	\$ 625,513
Capital Assets Being Depreciated:				
Buildings	7,893	0	0	7,893
Infrastructure	327,214	14,987	0	342,201
Subtotal	335,107	14,987	0	350,094
Less Accumulated Depreciation for:				
Buildings	33	395	0	428
Infrastructure	64,072	9,289	0	73,361
Subtotal	64,105	9,684	0	73,789
Business-Type Activities Total				
Capital Assets - Net of Depreciation	\$ 271,002	\$ 630,816	\$ 0	\$ 901,818

Depreciation expense was charged to programs of the primary government as follows:

<u>Governmental Activities</u>	
General Government:	
Other General Government	\$ 33,000
Public Safety:	
Police	10,974
Public Works:	
Other Public Works	98,443
Community and Economic Development	63,433
Recreation and Cultural	5,000
Total Governmental Activities	\$ 210,850
<u>Business-Type Activities</u>	
Sewer	\$ 3,684
Water	6,000
Total Business-Type Activities	\$ 9,684

Capital asset activity of the West Branch DDA Fund for the current year is as follows:

	Balance 07/01/07	Additions	Deletions	Balance 06/30/08
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 110,013	\$ 0	\$ 0	\$ 110,013
Capital Assets Being Depreciated	0	0	0	0

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	Balance July 01, 2007	Additions	Deletions	Balance June 30, 2008
Governmental Activities Total				
Capital Assets - Net of Depreciation	\$ 110,013	\$ 0	\$ 0	\$ 110,013

NOTE 5 - DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned	Total
Mortgages Receivable	\$ 0	\$ 894,487	\$ 894,487
Notes Receivable	19,776	0	19,776
Total	\$ 19,776	\$ 894,487	\$ 914,263

NOTE 6 - LONG-TERM LIABILITIES

Primary Government:

A. Bonds Payable

	<u>Governmental</u>	<u>Business-Type</u>
1994 West Branch Housing General Obligation Refunding Bonds in the amount of \$1,650,000 due in annual installments of \$95,000 to \$110,000 through 2009; interest at 5.9% to 6.0%. Payments are made from the High Rise Debt Refunding Fund.	\$ 195,000	\$ 0
1996 Unlimited Tax General Obligation Bonds in the amount of \$820,000 due in annual installments of \$80,000 to \$95,000 through October 1, 2010; interest at 5.1% to 5.4%. Payments are made from the Street Improvement Debt Service Fund.	270,000	0
1997 Unlimited Tax General Obligation Bonds in the amount of \$350,000 due in annual installments of \$30,000 to \$40,000 through September 1, 2011; interest at 5.1% to 5.5%. Payments are made from the Senior Center Debt Service Fund.	140,000	0
Total Bonds Payable	605,000	0

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

Primary Government: (Continued)

B. Notes Payable

	<u>Governmental</u>	<u>Business-Type</u>
2000 Little League Ball Field Lighting Contract in the amount of \$64,786 due in annual installments of \$5,000 to \$9,776 through August 31, 2010; interest at 5.19%. Payments are made from the General Fund.	\$ <u>19,776</u>	\$ <u>0</u>
Total Primary Government	\$ <u>624,776</u>	\$ <u>0</u>

C. Compensated Absences Payable

The City has an accrued liability for accumulated vested vacation and sick leave benefits of its employees. As of June 30, 2008, the accumulated vested vacation and sick leave benefits of the employees of various City departments were as follows:

	<u>Current Liability 06/30/08</u>	<u>Long-Term Liability 06/30/08</u>	<u>Total Balance 06/30/08</u>
<u>Accrued Employee Benefits Payable</u>			
<u>Primary Government</u>			
Governmental Activities	\$ 2,259	\$ 0	\$ 2,259
Business-Type Activities	<u>553</u>	<u>0</u>	<u>553</u>
	<u>\$ 2,812</u>	<u>\$ 0</u>	<u>\$ 2,812</u>

D. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2008:

	<u>Balance 07/01/07</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Balance 06/30/08</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
Primary Government:					
Bonds Payable	\$ 825,000	\$ 0	\$ (220,000)	\$ 605,000	\$ 215,000
Notes Payable	24,776	0	(5,000)	19,776	5,000
Contracts Payable	54,750	0	(54,750)	0	0
Compensated Absences	<u>15,630</u>	<u>0</u>	<u>(13,371) *</u>	<u>2,259</u>	<u>2,259</u>
Total Primary Government	<u>\$ 920,156</u>	<u>\$ 0</u>	<u>\$ (293,121)</u>	<u>\$ 627,035</u>	<u>\$ 222,259</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

D. Changes in Long-Term Liabilities (Continued)

	Balance 07/01/07	Issues or Additions	Payments or Expenditures	Balance 06/30/08	Due Within One Year
<u>Business-Type Activities</u>					
Primary Government:					
Contracts Payable	\$ 18,250	\$ 0	\$ (18,250)	\$ 0	\$ 0
Compensated Absences	<u>1,197</u>	<u>0</u>	<u>(644) *</u>	<u>553</u>	<u>553</u>
Total Primary Government	<u>\$ 19,447</u>	<u>\$ 0</u>	<u>\$ (18,894)</u>	<u>\$ 553</u>	<u>\$ 553</u>

*Represents net of additions and retirements for the year.

The annual aggregate maturities for all debt outstanding (excluding compensated absences) as of June 30, 2008 are as follows:

Primary Government

Bonds Payable

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 215,000	\$ 27,490	\$ 0	\$ 0	\$ 242,490
2010	215,000	15,520	0	0	230,520
2011	135,000	5,845	0	0	140,845
2012	<u>40,000</u>	<u>1,100</u>	<u>0</u>	<u>0</u>	<u>41,100</u>
Total	<u>\$ 605,000</u>	<u>\$ 49,955</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 654,955</u>

Notes Payable

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 5,000	\$ 1,026	\$ 0	\$ 0	\$ 6,026
2010	5,000	767	0	0	5,767
2011	<u>9,776</u>	<u>507</u>	<u>0</u>	<u>0</u>	<u>10,283</u>
Total	<u>\$ 19,776</u>	<u>\$ 2,300</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 22,076</u>

NOTE 7 - PROPERTY TAXES

Property taxes include amounts levied against all real property and tangible personal property located in the City. Properties are assessed as of December 31 and the related property taxes become a lien on June 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the County tax rolls. For the current year, the taxable value for properties located within the City was \$62,901,736. The 2007 tax rates were 11.39 mills for operations, 2.9 mills for garbage collection, 1.67 mills for street improvement debt and 0.39 mills for Senior Center..

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 8 - OPERATING TRANSFERS

During the year ended June 30, 2008, the following transfers were made:

<u>Description</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
<u>Major Funds</u>		
Major Governmental Funds:		
Economic Advancement Fund	\$ 409,658	\$ 90,000
Senior Citizens Housing Fund	0	124,790
Major Business-Type Activity Funds:		
Sewer Fund	90,000	90,000
Water Fund	<u>125,329</u>	<u>0</u>
Total Major Funds	<u>624,987</u>	<u>304,790</u>
Non-major Governmental Funds	<u>244,520</u>	<u>564,717</u>
	<u>\$ 869,507</u>	<u>\$ 869,507</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 9 - FUND BALANCE (DEFICIT)

A deficit unreserved fund balance of \$8,700 existed at June 30, 2008 in the Senior Citizens Housing Fund.

NOTE 10 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on an activity basis. The approved budgets of the City for these budgetary funds were adopted at the line item level.

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 10 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS (CONTINUED)

During the year ended June 30, 2008, the City incurred expenditures which were in excess of the amounts appropriated as follows:

<u>Fund/Activity</u>	<u>Total</u> <u>Appropriations</u>	<u>Amount of</u> <u>Expenditures</u>	<u>Budget</u> <u>Variance</u>
General Fund/Legislative	\$ 107,460	\$ 107,847	\$ 387
General Fund/Financial and Tax Administration	\$ 194,613	\$ 198,805	\$ 4,192
General Fund/Other General Government	\$ 173,893	\$ 175,479	\$ 1,586
Economic Advancement/Community and Economic Development	\$ 15,200	\$ 16,004	\$ 804
Economic Advancement/Operating Transfers Out	\$ 70,000	\$ 90,000	\$ 20,000
Senior Citizens Housing/Community and Economic Development	\$ 261,720	\$ 282,634	\$ 20,914

NOTE 11 - RETIREMENT SYSTEM - MERS OPERATED

Plan Description

The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The plan is affiliated with the Municipal Employees Retirement System (MERS) of Michigan, an agent multiple-employer, state-wide, public employee pension created under Public Act 135 of 1945, and now operating under Public Act 220 of 1996, and the MERS Plan Document as revised. Any municipality within the State may elect to become a participating member of MERS or elect to terminate participation by a majority vote of the municipality's governing body. Changes in benefit coverage are available to bargaining units after approval by a majority of the municipality's governing body. The MERS of Michigan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MERS of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling 1-800-767-6377.

Funding Policy

The City is required to contribute at an actuarially determined rate. The current rate is 10.62% of annual covered payroll for General Members, and 11.40% of annual covered payroll for police and fire employees. The contribution requirements of plan members are 5% for General Members, police and fire employees. If a member leaves the employment of the City, or dies, without a retirement allowance or other benefit payable on his/her account, the members' accumulated contributions (with interest) are refunded with spousal consent to the member, if living, or to the members' surviving spouse or beneficiary. The contribution requirements are established and may be amended by the MERS Retirement Board.

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 11 - RETIREMENT SYSTEM - MERS OPERATED (CONTINUED)

Annual Pension Cost

For the year ended June 30, 2008, the City's annual pension cost of \$95,009 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2007 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases of 4.5% per year compounded annually, and (c) additional projected salary increases of 0% to 8.4% per year, depending on age, attributable to merit, longevity and promotions. Both (a) and (b) include an inflation component. The actuarial value of the plan assets was determined using techniques that spread the effect of short-term volatility in the market value of investments over a ten-year period. The plans unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2007 was 28 years.

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2006	\$ 90,072	100 %	\$ 0
June 30, 2007	\$ 88,707	100 %	\$ 0
June 30, 2008	\$ 95,009	100 %	\$ 0

Funded Status and Funding Progress

As of December 31, 2007, the most recent actuarial valuation date, the plan was 81% funded. The actuarial accrued liability for benefits was \$3,612,728, and the actuarial value of assets was \$2,934,276, resulting in an unfunded actuarial accrued liability (UAAL) of \$678,452. The covered payroll (annual payroll of active employees covered by the plan) was \$860,795, and the ratio of the UAAL to the covered payroll was 79%.

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a) / c)</u>
12/31/05	\$ 2,433,962	\$ 3,049,548	\$ 615,586	80 %	\$ 778,151	79 %
12/31/06	\$ 2,673,496	\$ 3,297,649	\$ 624,153	81 %	\$ 806,276	77 %
12/31/07	\$ 2,934,276	\$ 3,612,728	\$ 678,452	81 %	\$ 860,795	79 %

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS

In addition to pension benefits, the City provides post-employment benefit options for health care to eligible retirees and their dependents. The benefits are provided in accordance with collective bargaining agreements under the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The criteria to determine eligibility is 10 years or more of service. The City funds the benefits on a pay-as-you-go basis. Eligible employees are required to pay all premiums for the cost of the health insurance. The City pays the prescription coverage. The City makes monthly payments directly to retirees. During 2008, expenses of \$11,094 were recognized for these post-employment benefits. There is one participant currently eligible.

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 13 - UNEMPLOYMENT COMPENSATION

The City is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the City must reimburse the Employment Agency for all benefits charged against the City. Accrued unemployment compensation was \$0 as of June 30, 2008.

NOTE 14 - RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries and natural disasters. The City has purchased commercial insurance for risks of loss. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 15 - CONTINGENCIES AND COMMITMENTS

The City participates in a number of federally assisted grant programs which are subject to program compliance audits. The audits of these programs for and including the year ended June 30, 2008, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the City expects such amounts, if any, to be immaterial.

NOTE 16 - SEWER FUND REPLACEMENT AND COLLECTION ACTIVITY

The Sewer Fund consolidated several funds into one for the current year. These activities are made up of Collection Replacement, Operations and Maintenance activity and Plant Replacement, Operations and Maintenance activity. A breakdown of the revenues and expenses for each of these activities for the current year is as follows:

	Collection Replacement, Operations and <u>Maintenance</u>	Plant Replacement, Operations and <u>Maintenance</u>	Total Per Financial <u>Statements</u>
Beginning Net Assets	\$ <u>86,690</u>	\$ <u>469,561</u>	\$ <u>556,251</u>
Revenues	65,467	483,551	549,018
Expenses	<u>(44,766)</u>	<u>(446,478)</u>	<u>(491,244)</u>
Change in Net Assets	<u>20,701</u>	<u>37,073</u>	<u>57,774</u>
Ending Net Assets	\$ <u><u>107,391</u></u>	\$ <u><u>506,634</u></u>	\$ <u><u>614,025</u></u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 17 - PRIOR PERIOD ADJUSTMENT

In the prior year, the August 2008 State Revenue Sharing payment was not included in revenue in the General Fund, as is required by the State Numbered Letter 1997-1. A prior period adjustment has been recorded to include the revenue in the beginning fund balance for the total August payment of \$32,572. In the prior year, a portion of the Senior Citizens Housing Fund mortgages receivable that should have been deferred was not. Therefore, a prior period adjustment has been made totaling \$511,881 to defer those mortgage receivable balances. In 2000 the City signed a loan on behalf of the West Branch Little League. The long term debt has been shown on the financial statements every year, but no note receivable from the Little League was recorded until the current year. Therefore, a prior period adjustment has been recorded on the government wide statements to remove the deferral from the receivable for a total of \$19,776. Also in the prior year, the West Branch DDA Fund and the DDA Perpetual Care Fund were shown as part of the governmental funds rather than as a separate component unit. Therefore, its fund balance amount totaling \$234,817 has been restated out of governmental activities net assets to the component unit net assets.

	<u>Original 2007</u>	<u>Restatement</u>	<u>Restated 2007</u>
Governmental Activities Net Assets	\$ 7,185,883	\$ (694,350)	\$ 6,491,533
Component Unit Net Assets	<u>-</u>	<u>234,817</u>	<u>234,817</u>
	<u>\$ 7,185,883</u>	<u>\$ (459,533)</u>	<u>\$ 6,726,350</u>

NOTE 18 - SUBSEQUENT EVENTS

At year end, the City of West Branch was in the process of selling the building being rented to Maplewood Manor to Maplewood Manor for a total of \$597,000. The closing for the sale is scheduled for December 11, 2008 with an expected loss on sale of \$413,625.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WEST BRANCH
Ogemaw County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2008

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Property Taxes	\$ 925,865	\$ 935,999	\$ 928,522	\$ (7,477)
State Grants and Revenue	189,058	192,701	195,396	2,695
Charges for Services	285,000	282,640	292,162	9,522
Fines and Forfeits	15,100	17,100	20,290	3,190
Interest and Rentals	32,920	28,920	37,422	8,502
Other Revenue	42,580	51,136	52,223	1,087
Total Revenue	<u>1,490,523</u>	<u>1,508,496</u>	<u>1,526,015</u>	<u>17,519</u>
<u>Expenditures</u>				
Current:				
General Government:				
Legislative	112,710	107,460	107,847	(387)
Financial and Tax Administration	192,286	194,613	198,805	(4,192)
Other General Government	174,220	173,893	175,479	(1,586)
Public Safety	438,680	478,682	456,016	22,666
Public Works	344,510	374,807	363,768	11,039
Community and Economic Development	47,975	32,145	31,098	1,047
Recreation and Cultural	173,062	182,402	180,429	1,973
Debt Service:				
Principal	5,000	5,000	5,000	0
Interest and Fiscal Charges	2,080	1,600	1,306	294
Total Expenditures	<u>1,490,523</u>	<u>1,550,602</u>	<u>1,519,748</u>	<u>30,854</u>
Excess of Revenue Over (Under) Expenditures	0	(42,106)	6,267	48,373
Fund Balances - Beginning of Year (Restated)	<u>375,604</u>	<u>375,604</u>	<u>375,604</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 375,604</u>	<u>\$ 333,498</u>	<u>\$ 381,871</u>	<u>\$ 48,373</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
ECONOMIC ADVANCEMENT - SPECIAL REVENUE FUND
For the Year Ended June 30, 2008

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Interest and Rentals	\$ 2,000	\$ 2,000	\$ 4,378	\$ 2,378
Other Revenue	<u>0</u>	<u>9,810</u>	<u>9,811</u>	<u>1</u>
Total Revenue	2,000	11,810	14,189	2,379
<u>Expenditures</u>				
Current:				
Community and Economic Development	<u>12,000</u>	<u>15,200</u>	<u>16,004</u>	<u>(804)</u>
Excess of Revenue Over (Under) Expenditures	<u>(10,000)</u>	<u>(3,390)</u>	<u>(1,815)</u>	<u>1,575</u>
<u>Other Financing Sources (Uses)</u>				
Operating Transfers In	10,000	318,691	409,658	90,967
Operating Transfers Out	<u>0</u>	<u>(70,000)</u>	<u>(90,000)</u>	<u>(20,000)</u>
Total Other Financing Sources (Uses)	<u>10,000</u>	<u>248,691</u>	<u>319,658</u>	<u>70,967</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	0	245,301	317,843	72,542
Fund Balances - Beginning of Year	<u>90,259</u>	<u>90,259</u>	<u>90,259</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 90,259</u>	<u>\$ 335,560</u>	<u>\$ 408,102</u>	<u>\$ 72,542</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
SENIOR CITIZENS HOUSING - SPECIAL REVENUE FUND
For the Year Ended June 30, 2008

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Federal Grants and Revenue	\$ 230,000	\$ 230,000	\$ 200,371	\$ (29,629)
Federal Revenue	0	200	0	(200)
Charges for Services	5,000	47,000	41,729	(5,271)
Interest and Rentals	141,750	164,513	159,716	(4,797)
Other Revenue	<u>2,250</u>	<u>4,782</u>	<u>17,312</u>	<u>12,530</u>
Total Revenue	379,000	446,495	419,128	(27,367)
<u>Expenditures</u>				
Current:				
Community and Economic Development	<u>260,055</u>	<u>261,720</u>	<u>282,634</u>	<u>(20,914)</u>
Excess of Revenue Over (Under) Expenditures	118,945	184,775	136,494	(48,281)
<u>Other Financing Uses</u>				
Operating Transfers Out	<u>(137,290)</u>	<u>(137,410)</u>	<u>(124,790)</u>	<u>12,620</u>
Excess of Revenue Over (Under) Expenditures and Other Uses	(18,345)	47,365	11,704	(35,661)
Fund Balances (Deficit) - Beginning of Year	<u>(20,404)</u>	<u>(20,404)</u>	<u>(20,404)</u>	<u>0</u>
Fund Balances (Deficit) - End of Year	<u>\$ (38,749)</u>	<u>\$ 26,961</u>	<u>\$ (8,700)</u>	<u>\$ (35,661)</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
HOUSING RESOURCE - SPECIAL REVENUE FUND
For the Year Ended June 30, 2008

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Federal Grants and Revenue	\$ 100,000	\$ 400,000	\$ 434,418	\$ 34,418
State Grants and Revenue	109,500	0	43,170	43,170
Charges for Services	61,000	127,000	30,258	(96,742)
Interest and Rentals	0	0	38	38
Other Revenue	25,000	25,000	10	(24,990)
Total Revenue	<u>295,500</u>	<u>552,000</u>	<u>507,894</u>	<u>(44,106)</u>
<u>Expenditures</u>				
Current:				
Community and Economic Development	149,480	374,065	328,573	45,492
Capital Outlay	0	72,556	0	72,556
Total Expenditures	<u>149,480</u>	<u>446,621</u>	<u>328,573</u>	<u>118,048</u>
Excess of Revenue Over (Under) Expenditures	146,020	105,379	179,321	73,942
<u>Other Financing Sources</u>				
Operating Transfers In	<u>0</u>	<u>12,620</u>	<u>0</u>	<u>(12,620)</u>
Excess of Revenue and Other Sources Over (Under) Expenditures	146,020	117,999	179,321	61,322
Fund Balances (Deficits) - Beginning of Year	<u>(117,664)</u>	<u>(117,664)</u>	<u>(117,664)</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 28,356</u>	<u>\$ 335</u>	<u>\$ 61,657</u>	<u>\$ 61,322</u>

OTHER INFORMATION

CITY OF WEST BRANCH
Ogemaw County, Michigan

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
June 30, 2008

	Special Revenue Funds							
	Major Street	Local Street	Police Safety	K-9	Cemetery	Civic	Industrial Park	Housing Replacement
<u>ASSETS</u>								
Cash and Cash Equivalents	\$ 208,860	\$ 274,288	\$ 6,178	\$ 1,479	\$ 2,224	\$ 0	\$ 220,076	\$ 0
Investments	0	0	0	0	0	0	0	0
Receivables:								
Accounts, Net	95	0	0	0	3,564	0	0	0
Due from Other Governmental Units	23,025	6,456	0	0	0	0	0	0
Due from Other Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Assets	<u>\$ 231,980</u>	<u>\$ 280,744</u>	<u>\$ 6,178</u>	<u>\$ 1,479</u>	<u>\$ 5,788</u>	<u>\$ 0</u>	<u>\$ 220,076</u>	<u>\$ 0</u>
<u>LIABILITIES AND FUND EQUITY</u>								
<u>Liabilities</u>								
Accounts Payable	\$ 1,031	\$ 250	\$ 0	\$ 0	\$ 1,067	\$ 0	\$ 0	\$ 0
Due to Other Funds	48	48	0	0	0	0	0	0
Due to Other Governmental Units	0	0	0	0	0	0	0	0
Deposits Payable	0	0	0	0	0	0	19,215	0
Accrued Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,655</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Liabilities	<u>1,079</u>	<u>298</u>	<u>0</u>	<u>0</u>	<u>2,722</u>	<u>0</u>	<u>19,215</u>	<u>0</u>
<u>Fund Equity</u>								
Fund Balances (Deficits):								
Reserved For:								
Debt Service	0	0	0	0	0	0	0	0
Perpetual Care	0	0	0	0	0	0	0	0
Unreserved:								
Undesignated, Reported In:								
Special Revenue Funds	<u>230,901</u>	<u>280,446</u>	<u>6,178</u>	<u>1,479</u>	<u>3,066</u>	<u>0</u>	<u>200,861</u>	<u>0</u>
Total Fund Equity	<u>230,901</u>	<u>280,446</u>	<u>6,178</u>	<u>1,479</u>	<u>3,066</u>	<u>0</u>	<u>200,861</u>	<u>0</u>
Total Liabilities and Fund Equity	<u>\$ 231,980</u>	<u>\$ 280,744</u>	<u>\$ 6,178</u>	<u>\$ 1,479</u>	<u>\$ 5,788</u>	<u>\$ 0</u>	<u>\$ 220,076</u>	<u>\$ 0</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
June 30, 2008

	<u>Special Revenue Funds</u>		<u>Debt Retirement Funds</u>				<u>Permanent Fund</u>	<u>Total Other Governmental Funds</u>
	<u>Senior Center</u>	<u>Progress Building</u>	<u>1998 Improv. Debt Ret.</u>	<u>Debt Ret. Imp.</u>	<u>Senior Center Debt</u>	<u>High Rise Debt</u>	<u>Cemetery Perp. Care</u>	
<u>ASSETS</u>								
Cash and Cash Equivalents	\$ 3,063	\$ 32,213	\$ 0	\$ 41,857	\$ 76,481	\$ 0	\$ 14,010	\$ 880,729
Investments	0	0	0	0	0	0	178,000	178,000
Receivables:								
Accounts, Net	100	0	0	0	0	0	2,207	5,966
Due from Other Governmental Units	0	0	0	0	0	0	0	29,481
Due from Other Funds	<u>15,000</u>	<u>0</u>	<u>0</u>	<u>7,272</u>	<u>157</u>	<u>0</u>	<u>0</u>	<u>22,429</u>
Total Assets	<u>\$ 18,163</u>	<u>\$ 32,213</u>	<u>\$ 0</u>	<u>\$ 49,129</u>	<u>\$ 76,638</u>	<u>\$ 0</u>	<u>\$ 194,217</u>	<u>\$ 1,116,605</u>
<u>LIABILITIES AND FUND EQUITY</u>								
<u>Liabilities</u>								
Accounts Payable	\$ 1,523	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,871
Due to Other Funds	0	0	0	0	6,696	0	0	6,792
Due to Other Governmental Units	0	0	0	0	3,982	0	0	3,982
Deposits Payable	150	0	0	0	0	0	0	19,365
Accrued Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,655</u>
Total Liabilities	<u>1,673</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>10,678</u>	<u>0</u>	<u>0</u>	<u>35,665</u>
<u>Fund Equity</u>								
Fund Balances (Deficits):								
Reserved For:								
Debt Service	0	0	0	49,129	65,960	0	0	115,089
Perpetual Care	0	0	0	0	0	0	203,017	203,017
Unreserved:								
Undesignated, Reported In:								
Special Revenue Funds	<u>16,490</u>	<u>32,213</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(8,800)</u>	<u>762,834</u>
Total Fund Equity	<u>16,490</u>	<u>32,213</u>	<u>0</u>	<u>49,129</u>	<u>65,960</u>	<u>0</u>	<u>194,217</u>	<u>1,080,940</u>
Total Liabilities and Fund Equity	<u>\$ 18,163</u>	<u>\$ 32,213</u>	<u>\$ 0</u>	<u>\$ 49,129</u>	<u>\$ 76,638</u>	<u>\$ 0</u>	<u>\$ 194,217</u>	<u>\$ 1,116,605</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

	Special Revenue Funds							
	Major Street	Local Street	Police Safety	K-9	Cemetery	Civic	Industrial Park	Housing Replacement
<u>Revenue</u>								
Property Taxes	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
State Grants and Revenue	146,147	39,396	0	0	0	0	0	0
Contributions from Local Units	0	0	3,215	0	0	0	0	0
Charges for Services	0	0	0	0	11,739	0	479	0
Interest and Rentals	10,133	9,797	208	51	222	20,459	6,985	0
Other Revenue	91	91	0	0	1,660	0	0	0
Total Revenue	<u>156,371</u>	<u>49,284</u>	<u>3,423</u>	<u>51</u>	<u>13,621</u>	<u>20,459</u>	<u>7,464</u>	<u>0</u>
<u>Expenditures</u>								
Current:								
General Government:								
Other General Government	0	0	0	0	43,751	0	0	0
Public Safety	0	0	4,072	489	0	0	0	0
Public Works	75,470	45,894	0	0	0	0	0	0
Health and Welfare	0	0	0	0	0	0	0	0
Community and Economic Development	0	0	0	0	0	0	8,796	0
Capital Outlay	159,699	0	0	0	0	0	0	0
Debt Service:								
Principal	0	0	0	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0	0	0	0
Total Expenditures	<u>235,169</u>	<u>45,894</u>	<u>4,072</u>	<u>489</u>	<u>43,751</u>	<u>0</u>	<u>8,796</u>	<u>0</u>
Excess of Revenue Over (Under) Expenditures	<u>(78,798)</u>	<u>3,390</u>	<u>(649)</u>	<u>(438)</u>	<u>(30,130)</u>	<u>20,459</u>	<u>(1,332)</u>	<u>0</u>
<u>Other Financing Sources (Uses)</u>								
Sale of Capital Assets	0	0	0	0	0	0	44,018	0
Operating Transfers In	0	25,935	0	0	21,500	0	0	0
Operating Transfers Out	(25,935)	0	0	0	0	(502,147)	0	0
Total Other Financing Sources (Uses)	<u>(25,935)</u>	<u>25,935</u>	<u>0</u>	<u>0</u>	<u>21,500</u>	<u>(502,147)</u>	<u>44,018</u>	<u>0</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>(104,733)</u>	<u>29,325</u>	<u>(649)</u>	<u>(438)</u>	<u>(8,630)</u>	<u>(481,688)</u>	<u>42,686</u>	<u>0</u>
Fund Balances (Deficits) - Beginning of Year	<u>335,634</u>	<u>251,121</u>	<u>6,827</u>	<u>1,917</u>	<u>11,696</u>	<u>481,688</u>	<u>158,175</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 230,901</u>	<u>\$ 280,446</u>	<u>\$ 6,178</u>	<u>\$ 1,479</u>	<u>\$ 3,066</u>	<u>\$ 0</u>	<u>\$ 200,861</u>	<u>\$ 0</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

	Special Revenue Funds		Debt Retirement Funds				Permanent Fund	Total Other Governmental Funds
	Senior Center	Progress Building	1998 Improv. Debt Ret.	Debt Ret. Imp.	Senior Center Debt	High Rise Debt	Cemetery Perp. Care	
<u>Revenue</u>								
Property Taxes	\$ 0	\$ 0	\$ 0	\$ 105,452	\$ 23,987	\$ 0	\$ 0	\$ 129,439
State Grants and Revenue	0	0	0	0	0	0	0	185,543
Contributions from Local Units	0	0	0	0	8,017	0	0	11,232
Charges for Services	0	0	0	0	0	0	3,709	15,927
Interest and Rentals	32,211	1,078	0	1,890	2,928	0	8,976	94,938
Other Revenue	436	1,500	0	0	0	0	15	3,793
Total Revenue	<u>32,647</u>	<u>2,578</u>	<u>0</u>	<u>107,342</u>	<u>34,932</u>	<u>0</u>	<u>12,700</u>	<u>440,872</u>
<u>Expenditures</u>								
Current:								
General Government:								
Other General Government	0	0	0	0	0	0	0	43,751
Public Safety	0	0	0	0	0	0	0	4,561
Public Works	0	0	0	0	0	0	0	121,364
Health and Welfare	26,471	0	0	0	0	0	0	26,471
Community and Economic Development	0	0	0	0	0	0	0	8,796
Capital Outlay	0	0	0	0	0	0	0	159,699
Debt Service:								
Principal	0	0	54,750	80,000	30,000	110,000	0	274,750
Interest and Fiscal Charges	0	0	2,410	16,760	8,675	14,790	0	42,635
Total Expenditures	<u>26,471</u>	<u>0</u>	<u>57,160</u>	<u>96,760</u>	<u>38,675</u>	<u>124,790</u>	<u>0</u>	<u>682,027</u>
Excess of Revenue Over (Under) Expenditures	<u>6,176</u>	<u>2,578</u>	<u>(57,160)</u>	<u>10,582</u>	<u>(3,743)</u>	<u>(124,790)</u>	<u>12,700</u>	<u>(241,155)</u>
<u>Other Financing Sources (Uses)</u>								
Sale of Capital Assets	0	0	0	0	0	0	0	44,018
Operating Transfers In	15,000	0	57,295	0	0	124,790	0	244,520
Operating Transfers Out	0	0	(135)	0	(15,000)	0	(21,500)	(564,717)
Total Other Financing Sources (Uses)	<u>15,000</u>	<u>0</u>	<u>57,160</u>	<u>0</u>	<u>(15,000)</u>	<u>124,790</u>	<u>(21,500)</u>	<u>(276,179)</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>21,176</u>	<u>2,578</u>	<u>0</u>	<u>10,582</u>	<u>(18,743)</u>	<u>0</u>	<u>(8,800)</u>	<u>(517,334)</u>
Fund Balances (Deficits) - Beginning of Year	<u>(4,686)</u>	<u>29,635</u>	<u>0</u>	<u>38,547</u>	<u>84,703</u>	<u>0</u>	<u>203,017</u>	<u>1,598,274</u>
Fund Balances - End of Year	<u>\$ 16,490</u>	<u>\$ 32,213</u>	<u>\$ 0</u>	<u>\$ 49,129</u>	<u>\$ 65,960</u>	<u>\$ 0</u>	<u>\$ 194,217</u>	<u>\$ 1,080,940</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

COMBINING BALANCE SHEET
WEST BRANCH DDA - COMPONENT UNIT
GOVERNMENTAL FUNDS
June 30, 2008

	<u>Special Revenue Funds</u>		Total
	<u>West Branch DDA</u>	<u>DDA Perpetual Care</u>	<u>Governmental Funds</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 19,240	\$ 8,084	\$ 27,324
Investments	402	71,000	71,402
Receivables:			
Accounts, Net	6,580	0	6,580
Notes Receivable	51,571	0	51,571
Due from Fiduciary Funds	<u>398</u>	<u>0</u>	<u>398</u>
Total Assets	<u>\$ 78,191</u>	<u>\$ 79,084</u>	<u>\$ 157,275</u>
<u>LIABILITIES AND FUND EQUITY</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 10,668	\$ 0	\$ 10,668
Deferred Revenue	<u>58,000</u>	<u>0</u>	<u>58,000</u>
Total Liabilities	<u>68,668</u>	<u>0</u>	<u>68,668</u>
<u>Fund Equity</u>			
Fund Balances:			
Reserved For:			
Perpetual Care	0	79,084	79,084
Unreserved:			
Undesignated, Reported In:			
Special Revenue Funds	<u>9,523</u>	<u>0</u>	<u>9,523</u>
Total Fund Equity	<u>9,523</u>	<u>79,084</u>	<u>88,607</u>
Total Liabilities and Fund Equity	<u>\$ 78,191</u>	<u>\$ 79,084</u>	<u>\$ 157,275</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

WEST BRANCH DDA - COMPONENT UNIT
RECONCILIATION OF THE GOVERNMENTAL FUND
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2008

Total Governmental Fund Balances	\$	88,607
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:

Capital Asset Cost	110,013
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Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds:

Mortgages Receivable	<u>58,000</u>
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Total Net Assets - Governmental Activities	\$	<u><u>256,620</u></u>
--	----	-----------------------

CITY OF WEST BRANCH
Ogemaw County, Michigan

COMBINING STATEMENT OF
REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
WEST BRANCH DDA - COMPONENT UNIT - GOVERNMENTAL FUNDS
June 30, 2008

	<u>Special Revenue Funds</u>		Total
	<u>West Branch DDA</u>	<u>DDA Perpetual Care</u>	<u>Governmental Funds</u>
<u>Revenue</u>			
Property Taxes	\$ 10,520	\$ 0	\$ 10,520
Federal Revenue	27,525	0	27,525
Charges for Services	457	0	457
Interest and Rentals	153	7,258	7,411
Other Revenue	<u>12,364</u>	<u>0</u>	<u>12,364</u>
Total Revenue	51,019	7,258	58,277
<u>Expenditures</u>			
Current:			
Community and Economic Development	<u>87,428</u>	<u>0</u>	<u>87,428</u>
Excess of Revenue Over (Under) Expenditures	<u>(36,409)</u>	<u>7,258</u>	<u>(29,151)</u>
<u>Other Financing Sources (Uses)</u>			
Operating Transfers In	144,145	0	144,145
Operating Transfers Out	<u>0</u>	<u>(144,145)</u>	<u>(144,145)</u>
Total Other Financing Sources (Uses)	<u>144,145</u>	<u>(144,145)</u>	<u>0</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	107,736	(136,887)	(29,151)
Fund Balances (Deficits) - Beginning of Year	<u>(98,213)</u>	<u>215,971</u>	<u>117,758</u>
Fund Balances - End of Year	<u>\$ 9,523</u>	<u>\$ 79,084</u>	<u>\$ 88,607</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

WEST BRANCH DDA - COMPONENT UNIT
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

Total Net Change in Fund Balances - Governmental Funds	\$	(29,151)
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Amounts reported for governmental activities in the statement of
activities are different because:

Receivables not currently available are reported as revenue when
collected or when currently available in the fund financial statements
but are recognized as revenue when earned in the government-wide
financial statements:

Net Change in Long-Term Mortgages Receivable	<u>50,954</u>
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Change in Net Assets of Governmental Activities	\$	<u><u>21,803</u></u>
---	----	----------------------



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CITY OF WEST BRANCH
OGEMAW COUNTY, MICHIGAN

SINGLE AUDIT REPORTS
YEAR ENDED JUNE 30, 2008

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December 11, 2008

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City Council
City of West Branch
Ogemaw County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of West Branch, Ogemaw County, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the City of West Branch's basic financial statements and have issued our report thereon dated December 11, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of West Branch's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of West Branch's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of West Branch's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of West Branch's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of West Branch's financial statements that is more than inconsequential will not be prevented or detected by the City of West Branch's internal control. We consider the deficiencies 08-1, 08-2 and 08-3 described in the accompanying schedule of findings and questioned costs, to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of West Branch's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, we believe the significant deficiencies 08-1 and 08-2 described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of West Branch's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 08-4 and 08-5.

- 1 -

City Council
City of West Branch
December 11, 2008
Page Two

We noted certain matters that we have reported to management of the City of West Branch in a separate letter dated December 11, 2008.

The City of West Branch's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of West Branch's responses and, accordingly we express no opinion on them.

This report is intended solely for the information and use of City Council, management, the Michigan Department of Treasury, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grunth & Co., P.C.



Stephenson, Gracik & Co., P.C.

Certified Public Accountants & Consultants

December 11, 2008

Alan J. Stephenson, CPA
Gerald D. Gracik Jr., CPA
James J. Gracik, CPA
Donald W. Brannon, CPA
Kyle E. Troyer, CPA

Herman A. Bertuleit

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

City Council
City of West Branch
Ogemaw County, Michigan

Compliance

We have audited the compliance of the City of West Branch with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. The City of West Branch's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of West Branch's management. Our responsibility is to express an opinion on The City of West Branch's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The City of West Branch's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of The City of West Branch's compliance with those requirements.

In our opinion, The City of West Branch complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of The City of West Branch is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of West Branch's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The City of West Branch's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of West Branch, as of and for the year ended June 30, 2008, and have issued our report thereon dated December 11, 2008. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City of West Branch's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, management, the Michigan Department of Treasury, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grunth & Co., P.C.

CITY OF WEST BRANCH
Ogemaw County, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2008

Findings – Financial Statements Audit

07-1

Internal Controls

Financial Statement Preparation

The City of West Branch has individuals on staff to review the financial report to ensure it is accurate, and the financial information reflects the recording of the proposed entries. However, the individuals do not review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles.

Current Status:

This situation still exists and is included below as a current year audit finding.

07-2

Internal Controls

Deficit Fund Balance

The City of West Branch closed the 2007 fiscal year with deficit fund balances in several funds.

Current Status:

A deficit reduction plan was filed with the Michigan Department of Treasury; however, one fund continued to have a deficit fund balance at the close of the 2008 fiscal year and is included below as a current year audit finding.

Findings and Questioned Costs – Major Federal Award Programs Audit

There was no major federal award program audit for the year ending June 30, 2007.

CITY OF WEST BRANCH
Ogemaw County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2008

Summary of Auditors' Results

- (1) The auditors' report expresses unqualified opinions on the financial statements of the City of West Branch.
- (2) Two material weaknesses relating to the audit of the basic financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- (3) Two instances of noncompliance material to the basic financial statements of the City of West Branch, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- (4) No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
- (5) The auditors' report on compliance for the major federal award program for the City of West Branch expresses an unqualified opinion.
- (6) The auditors' report disclosed no instances of audit findings relative to the major federal award programs for the City of West Branch.
- (7) The program tested as a major program was: CDBG Grant, CFDA # 14.228
- (8) The threshold used for distinguishing between Type A and B programs was \$300,000.
- (9) The City of West Branch did not qualify as a low-risk auditee.

Findings – Financial Statements Audit

08-1 Cash Reconciliations

Timely preparation of complete and accurate bank reconciliations is a key to maintaining adequate control over both cash receipts and disbursements. During our audit, it was noted that bank reconciliations were not being conducted. We recommend that management establish procedures to ensure that cash accounts are reconciled on a monthly basis. In addition we recommend that all reconciliations be reviewed by someone who is not involved in the reconciliation process. This review should be documented with initialing and dating of the reconciliation.

Criteria: Generally Accepted Accounting Principles requires adequate control over both cash receipts and disbursements. The timely preparation of complete and accurate bank reconciliations is key to maintaining this control.

Condition: The City of West Branch personnel fell several months behind in the reconciling of their cash accounts.

Questioned Costs: None.

Context: The City of West Branch was short staffed in the current fiscal year causing those personnel charged with reconciling the cash accounts to fall several months behind.

Effect: As a result, the City is considered to have a material weakness, since adequate controls over receipts and disbursements were not in place during the year as required by Generally Accepted Accounting Principles.

CITY OF WEST BRANCH
Ogemaw County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2008

Findings - Financial Statements Audit (Continued)

08-1 Cash Reconciliations (Continued)

Views of responsible officials and planned corrective action: The City of West Branch is no longer short staffed and those personnel charged with reconciling cash are now up to date. Management does not believe that this finding will remain an issue in the future.

08-2 Financial Statement Preparation

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of the City's financial statements. However, if at any point in the audit we as auditors are part of the City's control system for producing reliable financial statements, auditing standards indicate that the City has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency. We recommend that Management and those charged with governance evaluate and document their decision on the costs and benefits of whether to contract for this service with our firm.

An example of where the City relies on the auditor as a control for producing reliable financial statements is in the adjustments to receivable accounts needed at year end. During the audit, several adjustments were needed to balance the different receivable type accounts to actual. By these not being adjusted monthly, the financial records provided to the Council each month were not an accurate reflection of the City's standings. Without adequate financial records, management is basing its decision on incomplete and/or inaccurate information during the year, and additional time is spent at year end in preparing and auditing the financial statements.

Criteria: Accounting principles require personnel of the City of West Branch to have the knowledge to review and determine the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles.

Condition: The City of West Branch personnel prepare various financial information throughout the year to assess operations and the financial condition of the City. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the City relies on our firm to assist in reporting the annual financial report in accordance with Generally Accepted Accounting Principles.

Questioned Costs: None.

Context: The City of West Branch have individuals on staff to review the financial report to ensure it is accurate, and the financial information reflects the recording of the proposed entries. However, the individuals do not review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles.

Effect: As a result, the City is considered to have a material weakness, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the City would not be in a position to detect the errors or omissions.

Views of responsible officials and planned corrective action: The City of West Branch plans to look into the purchase and use of the 2005 Governmental Accounting, Auditing and Financial Reporting – Using the GASB 34 Model (commonly known as the "Blue Book"), to help train and assist management with the disclosures required for the financial statements.

CITY OF WEST BRANCH
Ogemaw County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2008

08-3 Deficit Fund Balance

In the prior year, the City's Senior Citizen Housing Program had a deficit fund balance of \$20,404 at year end and the City was required to prepare and submit a deficit elimination plan to the Michigan Department of Treasury. As of June 30, 2008, the deficit fund balance still remains; however, it has been reduced to \$8,700. We are encouraged by the progress made in the current year; however, we recommend that management review the deficit elimination plan prepared in the prior year to determine if the plan addressed the recovery period taking more than one year. If it did not, a new deficit elimination plan needs to be prepared and submitted to the Michigan Department of Treasury as soon as possible.

Criteria: The State of Michigan requires that a governmental entity make the needed adjustments to their fund balances in order to close the year without a deficit fund balance.

Condition: The City of West Branch closed the fiscal year with a deficit fund balance in the Senior Citizen Housing Program.

Questioned Costs: None.

Context: The City of West Branch did not transfer funds to eliminate the deficit fund balance in the Senior Citizen Housing Program prior to the end of the fiscal year.

Effect: As a result, the City is considered to have a significant deficiency and must prepare a deficit elimination plan and submit the plan to the Michigan Department of Treasury.

Views of responsible officials and planned corrective action: The City of West Branch will prepare a deficit elimination plan and submit the plan to the Michigan Department of Treasury as soon as possible.

08-4 Tax Collection Distribution

MCL 211.43 requires that a governmental entity distribute collected property tax payments on hand, on the 1st and 15th day of each month, to the appropriate entity within ten business days after the 1st and 15th of each month. During the audit, we noted that payments were only being submitted once a month. We recommend that management establish procedures to ensure that both required payments are made by their required dates without exception, in accordance with MCL 211.43.

Criteria: MCL 211.43 requires that a governmental entity distribute collected property tax payments on hand, on the 1st and 15th day of each month, to the appropriate entity within ten business days after the 1st and 15th of each month.

Condition: The City of West Branch only distributed collected property tax payments on hand once a month.

Questioned Costs: None.

Context: The City of West Branch only distributed collected property tax payments on hand once a month which is not in compliance with MCL 211.43.

Effect: As a result, the City is considered to have a compliance finding which must be identified to the Michigan Department of Treasury in the Auditing Procedures Report (Form 496).

Views of responsible officials and planned corrective action: The City of West Branch will begin distributing the collected property tax payments on hand twice a month as required.

CITY OF WEST BRANCH
Ogemaw County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2008

08-5 Illegal Expenditures

The Bulletin for Audits of Local Units of Government identifies different types of expenditures which are considered unlawful expenditures by a governmental unit. The listing includes such items as donations to community organizations and flowers to the sick or departed. Both of the mentioned expenses were found in the City's books in the current year. Although the expenditures were immaterial in value, the requirement to not expend government funds on unlawful expenditures does not take materiality into consideration. We recommend that management establish procedures to ensure that no items included as unlawful per the above mentioned bulletin be paid for by the City.

Criteria: The Bulletin for Audits of Local Units of Government identifies different types of expenditures, such as donations to community organizations and flowers to the sick or departed, as unlawful expenditures by a governmental unit. .

Condition: The City of West Branch had expenses for both donations to community organizations and flowers to the sick or departed in the current fiscal year.

Questioned Costs: None.

Context: The City of West Branch had expenses for both donations to community organizations and flowers to the sick or departed in the current fiscal year which is not in compliance with the Bulletin for Audits of Local Units of Government.

Effect: As a result, the City is considered to have a compliance finding which must be identified to the Michigan Department of Treasury in the Auditing Procedures Report (Form 496).

Views of responsible officials and planned corrective action: The City of West Branch will contact the State of Michigan to gain further insight on allowable and unallowable expenditures .

Findings and Questioned Costs – Major Federal Award Programs Audit

There were no findings or questioned costs related to the major federal award program audit for the year ending June 30, 2008.

CITY OF WEST BRANCH
Ogemaw County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008

Federal Grantor or Pass Through Grantor <u>Program Title/Grant Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Award Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue July 1, 2007</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Accrued (Deferred) Revenue June 30, 2008</u>
<u>U.S. Department of Housing and Urban Development</u>							
Passed through Michigan State Housing Development Authority: Section 8 Assistance Payments	14.157	\$ 200,371	\$ 0	\$ 0	\$ 200,371	\$ 200,371	\$ 0
CDBG Grant MSC-2006-1052-NPP	14.228	<u>589,655</u>	<u>0</u>	<u>0</u>	<u>434,418</u>	<u>418,685</u>	<u>15,733</u>
Total Federal Awards		<u>\$ 790,026</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 634,789</u>	<u>\$ 619,056</u>	<u>\$ 15,733</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008

Notes:

1. The Schedule of Expenditures of Federal Awards is a summary of the cash activity of the City's federal awards and does not present transactions that would be included in financial statements of the City presented on the accrual basis of accounting, as contemplated by accounting principles generally accepted in the United States of America.
2. Expenditures on this schedule reconcile with amounts reported in the financial statements and the financial reports submitted to grantors.
3. Reconciliation to financial statements:

Special Revenue Funds:

Senior Citizens Housing Fund
Housing Resource Fund

\$	200,371
	<u>434,418</u>
 \$	 <u>634,789</u>



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Kyle E. Troyer, CPA

Herman A. Bertuleit

December 11, 2008

Management and the City Council
City of West Branch
Ogemaw County, Michigan

We have conducted the audit of the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of West Branch as of and for the year ended June 30, 2008 and have issued our report dated December 11, 2008. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I Auditor's Communication of Significant Matters with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel in the City during the audit and met with management on December 11, 2008. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the City Council, others within the City and the Michigan Department of Treasury and are not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

Stephenson, Gracik & Co., P.C.

Appendix 1

Communication to Those Charged with Governance

Responsibilities Under Generally Accepted Auditing Standards

As stated in our engagement letter dated September 11, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the City of West Branch's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City of West Branch's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City of West Branch's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the City of West Branch's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City of West Branch's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit as outlined in our engagement letter related to planning matters dated June 30, 2008.

Significant Audit Findings

- Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in (Note 1) of the financial statements. We noted no transactions entered into by the City during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.
- Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected.
- Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

Appendix I

Communication to Those Charged with Governance

Difficulties Encountered During the Audit

We encountered no difficulties during the audit.

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management. A summary of unadjusted audit differences was provided to management on December 11, 2008.

Disagreements with Management

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditor's report. We had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

Significant Issues Discussed or Subject to Correspondence with Management

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

Other Reports

Other information that is required to be reported to you is included in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, and the Schedule of Findings and Questioned Costs. Please read all information included in those reports to ensure you are aware of relevant information.

Appendix II Management Comments

In planning and performing our audit of the financial statements of City of West Branch as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered City of West Branch's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of West Branch's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of West Branch's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We identified the following deficiency in internal control that we consider to be a significant deficiency.

CASH RECONCILIATIONS

Timely preparation of complete and accurate bank reconciliations is a key to maintaining adequate control over both cash receipts and disbursements. During our audit, it was noted that bank reconciliations were not being conducted. We recommend that management establish procedures to ensure that cash accounts are reconciled on a monthly basis. In addition we recommend that all reconciliations be reviewed by someone who is not involved in the reconciliation process. This review should be documented with initialing and dating of the reconciliation.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We identified the following deficiency in internal control that we consider to be a material weakness.

FINANCIAL STATEMENT PREPARATION CONTROLS

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of the City's financial statements. However, if at any point in the audit we as auditors are part of the City's control system for producing reliable financial statements, auditing standards indicate that the City has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency. We recommend that Management and those charged with governance evaluate and document their decision on the costs and benefits of whether to contract for this service with our firm.

An example of where the City relies on the auditor as a control for producing reliable financial statements is in the adjustments to receivable accounts needed at year end. During the audit, several adjustments were needed to balance the different receivable type accounts to actual. By these not being adjusted monthly, the financial records provided to the Council each month were not an accurate reflection of the City's standings. Without adequate financial records, management is basing its decision on incomplete and/or inaccurate information during the year, and additional time is spent at year end in preparing and auditing the financial statements.

Appendix II Management Comments

DEFICIT FUND BALANCE

In the prior year, the City's Senior Citizen Housing Program had a deficit fund balance of \$20,404 at year end and the City was required to prepare and submit a deficit elimination plan to the Michigan Department of Treasury. As of June 30, 2008, the deficit fund balance still remains; however, it has been reduced to \$8,700. We are encouraged by the progress made in the current year; however, we recommend that management review the deficit elimination plan prepared in the prior year to determine if the plan addressed the recovery period taking more than one year. If it did not, a new deficit elimination plan needs to be prepared and submitted to the Michigan Department of Treasury as soon as possible.

We have also noted various items we feel could improve your internal controls or operating efficiencies. These items are not considered significant deficiencies or material weaknesses but are presented for your consideration.

TAX COLLECTION DISTRIBUTION

MCL 211.43 requires that a governmental entity distribute collected property tax payments on hand, on the 1st and 15th day of each month, to the appropriate entity within ten business days after the 1st and 15th of each month. During the audit, we noted that payments were only being submitted once a month. We recommend that management establish procedures to ensure that both required payments are made by their required dates without exception, in accordance with MCL 211.43.

ILLEGAL EXPENDITURES

The Bulletin for Audits of Local Units of Government identifies different types of expenditures which are considered unlawful expenditures by a governmental unit. The listing includes such items as donations to community organizations and flowers to the sick or departed. Both of the mentioned expenses were found in the City's books in the current year. Although the expenditures were immaterial in value, the requirement to not expend government funds on unlawful expenditures does not take materiality into consideration. We recommend that management establish procedures to ensure that no items included as unlawful per the above mentioned bulletin be paid for by the City.

WAGE RATES

During the audit, we noted that there was no documentation available in employee's personnel files showing authorized pay rates approved by management. We recommend that all personnel files include written documentation showing approved pay rates that is signed by an authorized member of management.

PASSWORDS

During our audit, we noted that although employees obtain their own individual passwords for the network, there is also a generic password that all employees know. Some computer specialists have estimated that as much as 80% of network security breaches occur from within the network rather than from outside hackers. In light of this, we recommend that management delete the current generic password and that management remind employees of the importance of keeping their passwords secure and confidential.

Appendix II
Management Comments

STATUS OF PRIOR YEAR COMMENTS:

We have reviewed the status of comments and recommendations made in the prior year. The status of prior year comments is as follows:

<u>Comment</u>	<u>Implemented/ Situation Corrected</u>	<u>Management Decision To Not Implement</u>	<u>Progress Made</u>	<u>Situation Still Exists</u>
Deficit Fund Balances				X
Financial Statement Preparation				X
Expenditures Exceeding Appropriations			X	